# Annual report

year ended 31 March 2016

Metropolitan

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# Members, executives and advisors

## Chair
Paula Kahn

## Non-executive Board members
Stuart Beevor
Clive Deadman
Janet Dean
Michael Dunn
Mike Green
Jerry Piper
Waheed Saleem (until 24 September 2015)
Christine Turner

## Executive Board members
**Chief Executive**
Brian Johnson

**Executive Director, Finance**
Sarah Mussenden (until 30 September 2015)

## Executive Directors
**Executive Director, Housing Services**
Jenny Danson

**Executive Director, People**
Sheila Coyle (until 20 July 2015)

**Interim Executive Director, People**
Craig McCoy (from 20 July 2015)

**Executive Director, Care and Support**
Ann Gibbons

**Executive Director, Development**
Richard Vining

**Executive Director, Finance**
Sarah Mussenden (until 30 September 2015)

**Interim Executive Director, Finance**
Ian Johnson (from 30 September 2015)

## Secretary
Mary Keane

## Registered office
The Grange, 100 High Street, Southgate, London N14 6PW

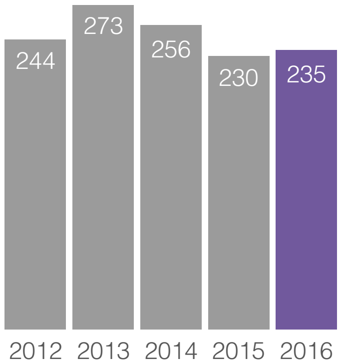
## Auditors
BDO LLP, 2 City Place, Beehive Ring Road, Gatwick,
West Sussex, RH6 0PA

## Bankers
Lloyds Banking Group

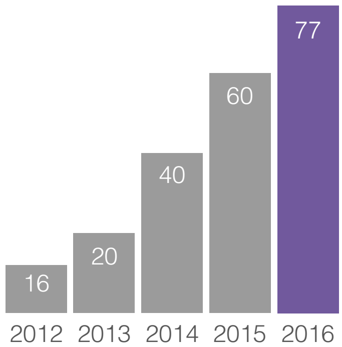
# Results at a glance

## Group figures

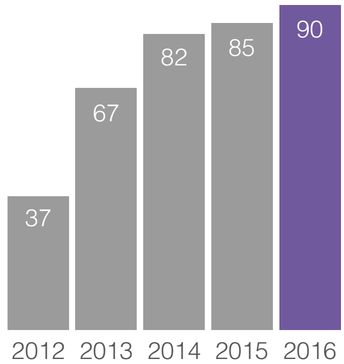
### Turnover
**£235m**



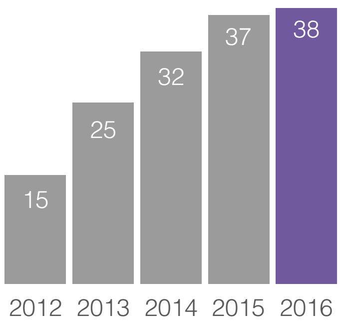

### Surplus after tax
**£77m**



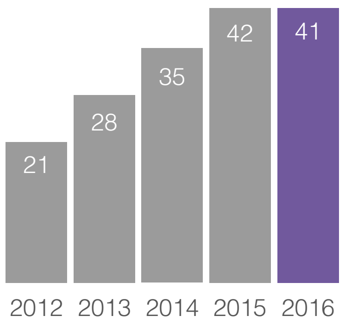

### Operating surplus
**£90m**



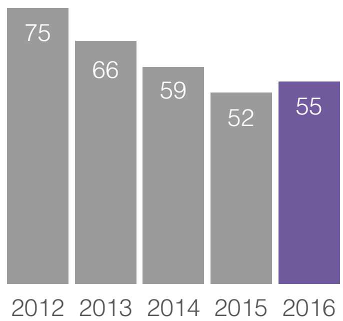

### Operating margin
**38%**




### Lettings margin
**41%**




### Gearing
**55%**




Notes

Figures for 2015 and 2016 have been prepared using the new UK GAAP accounting standard (FRS 102) and SORP 2014.

Gearing is calculated by dividing net debt by capital and reserves.

The 2016 figures have been adjusted and stated before a £9m charge related to pension deficit reduction scheme obligations pursuant to the triennial valuation of the SHPS pension scheme.

# Performance at a glance

**371**
New homes delivered

**£58m**
Investment in existing stock

**3,410 homes**
Development pipeline

**£250m**
Debut public bond value

**7,282**
Total independence steps

**428**
Number of residents supported into employment

**No.8**
Stonewall Top 100 Employers ranking

**86.2%**
Proportion of repairs fixed first time

**100%**
Gas safety compliant

Ishawu Osumanu with his partner Jennifer and baby daughter Zahrah at home in Clapham Park, our largest regeneration project, where we refurbished 242 properties this year.

Work on their home in Lambeth, south London included the fitting of modern insulation and double-glazed windows, alongside a new kitchen, bathroom and balcony.

Ishawu says: "We're very happy with the refurb. Our flat used to be cold, but since the work was done, it's been great – last winter, it was comfortable and warm, which was very important for us with our young daughter. I like having a balcony now, too – it's nice to be able to get out on it in good weather."

# Chair's introduction



Metropolitan's achievements this year, many of which are set out in this report, would not have been possible without the hard work of our people. I would like to thank everyone in the organisation for their continued commitment and dedication to our residents and customers. I would also like to thank the Board for their work in guiding the progress of the organisation and supporting the wider Metropolitan team.

Coming out of 2015/16, Metropolitan has the commercial agility and capacity to take advantage of the opportunities and challenges that the next few years are likely to bring. The turnaround journey that began in 2012 is now complete – we have the strategy, the team and the financial strength to give us a solid platform on which to build.

The cornerstone of our strategy is financial strength. It is this strength that enables us to build new homes and invest in the ones we already provide. But providing homes is only part of what we are here to do. Our ultimate purpose is to support our customers by doing what we can to improve their life chances. It is important to us that our customers feel increasingly in control of their lives and we are making great progress in learning how we can best offer this support – as evidenced by the steps many of them have taken towards achieving greater levels of personal independence in 2015/16.

Having proved that we can deliver positive change to the fundamentals of the organisation over a relatively short period of time, we have now set our sights on achieving excellence across all of the services we provide to our customers. Embedding this culture of customer service excellence will be one of our top priorities for the year ahead.

In every sector, external change is inevitable. But the last 12 months have been extraordinary and at the time of writing the country is in the midst of great uncertainty following the EU referendum. We do not anticipate that we will need to change course – we are well-funded, our plans driven by long-term housing need and backed up by significant and stable revenue streams.

That's not to say that we can be complacent. Against this landscape, I believe that the organisations that will flourish will be those with the foresight, vision and confidence to tackle new challenges head on, and also those who are able to inform and shape change themselves. We have worked hard to get to a position of strength – now we need to capitalise on it for the greater benefit of our residents and customers.

**Paula Kahn,**
**Chair**

Strengthening our financial position, building new homes, and facilitating independence outcomes continued to be our three overriding goals this year. These have been underpinned by a focus on ensuring that all of our activities represent value for money for both the organisation and our residents and customers.

For us, value for money is about delivering the greatest number of new homes that our financial capacity allows and the greatest number of positive outcomes for our customers at the lowest sustainable cost. It is also about driving up operational standards in areas such as repairs and rent collection, and investing in our estate and systems so we can make the most of our assets.

**We achieved our highest ever surplus of £77m* (2015: £60m)**

In 2015/16 we improved on an already strong financial performance by achieving our highest ever surplus of £77m* (2015: £60m). Our operating margin reached 38.4%* (2015: 36.9%) as we continued to focus on cost control and process efficiency.

Our £250m debut bond, which was three times over-subscribed, secures our development programme for the future, enabling us to meet our first responsibility as a housing association: to build affordable new homes. This year we delivered 371 (2015: 456); and although this represented a reduction in the number of completions, we significantly increased our overall pipeline from 2,690 units last year to 3,410 as at 31 March 2016 – an increase of 27%.

At the same time, we invested a record £58m (2015: £34m) to improve and maintain our existing stock. This work included the refurbishment of hundreds of homes at Clapham Park, our largest regeneration project.

## Operational performance and customer service

The performance of our repairs service is an area that has fallen short of an acceptable standard for some time and this year we took steps to deliver fundamental, sustainable improvements. In particular we have stepped up our expenditure on investment in existing stock, ramping it up to a level that will ensure stock condition is maintained at a high level.

In February we launched our new in-house repairs service, Metworks, in the East Midlands. Our initial experience has been very encouraging, with a seamless handover from our external provider to our new team and all targets met. We plan to introduce Metworks in London in the future. We see Metworks as an important platform from which we can develop the repairs service to maximise value for money and service levels.

Performance has improved overall with 86.2% of our repairs fixed first time. We still have a way to go, but this is good progress.

Another significant achievement this year was the reduction of rent arrears from 5.24% (2015) to 4.66% of income owed to us. Additionally, we have delivered improved performance in turning around our empty properties. Last year we reported that our performance in this area dipped as a result of challenges with our repairs contractors. This year we reduced rent loss through empty properties from £5.3m to £4.3m.

## Care and support and independence

One year on from its formal integration with Metropolitan, our care and support business remains self-financing and continues to grow despite another challenging year for new business.

We recognise that there is a tremendous opportunity in this area of our business – not least because of the growth in demand for social care. We also believe there is untapped potential in joining up health, housing and social care services to reduce the mounting pressure on the NHS and local authorities – and to deliver significant savings to the public purse.

Our key goal remains to enable our residents to achieve their maximum level of personal independence and we measure this through the number of 'independence steps' we facilitate. We set ourselves a target at the beginning of the year of 6,000 and exceeded this with 7,282 (2015: 4,754).

A total of 5,652 (2015: 2,740) of these were outcomes delivered by our care and support services – such as customers moving to less intensive support within one of our services. Others included supporting 428 people into work (2015: 448), 444 into volunteering (2015: 308) and 383 (2015: 271) to gain qualifications.

## Our people

We could not achieve our goals without our dedicated people. They shape our culture and our success is only possible because of their commitment to working by our values.

Fostering a workforce that reflects the diversity of our customers is very important to us. It gives us a breadth of experience that allows us to better serve the communities in which we operate. We continue to run a very active diversity and inclusion programme and we were delighted to achieve a top 10 ranking in this year's Stonewall Workplace Equality Index.

This year saw an impressive increase in overall staff engagement across the organisation from 60% to 67%, which was two points above our target – a testament to the enthusiasm of our people to make Metropolitan a great place to work.

## Looking ahead

Coming out of the last financial year, Metropolitan has the commercial agility and capacity to take advantage of the opportunities and challenges that the next few years are likely to bring. With the turnaround completed, the focus has moved firmly to ensuring that the organisation accelerates the development of its capability and infrastructure to continue to increase the social value that it delivers into the future.

**Brian Johnson, Chief Executive**

* All 2016 figures and comparatives are stated in accordance with Financial Reporting Standard in the UK and the Republic of Ireland, FRS 102. Adjusted and stated before a £9m charge related to pension deficit reduction scheme obligations pursuant to the triennial valuation of the SHPS pension scheme.

## Strategic operational review

### Who we are

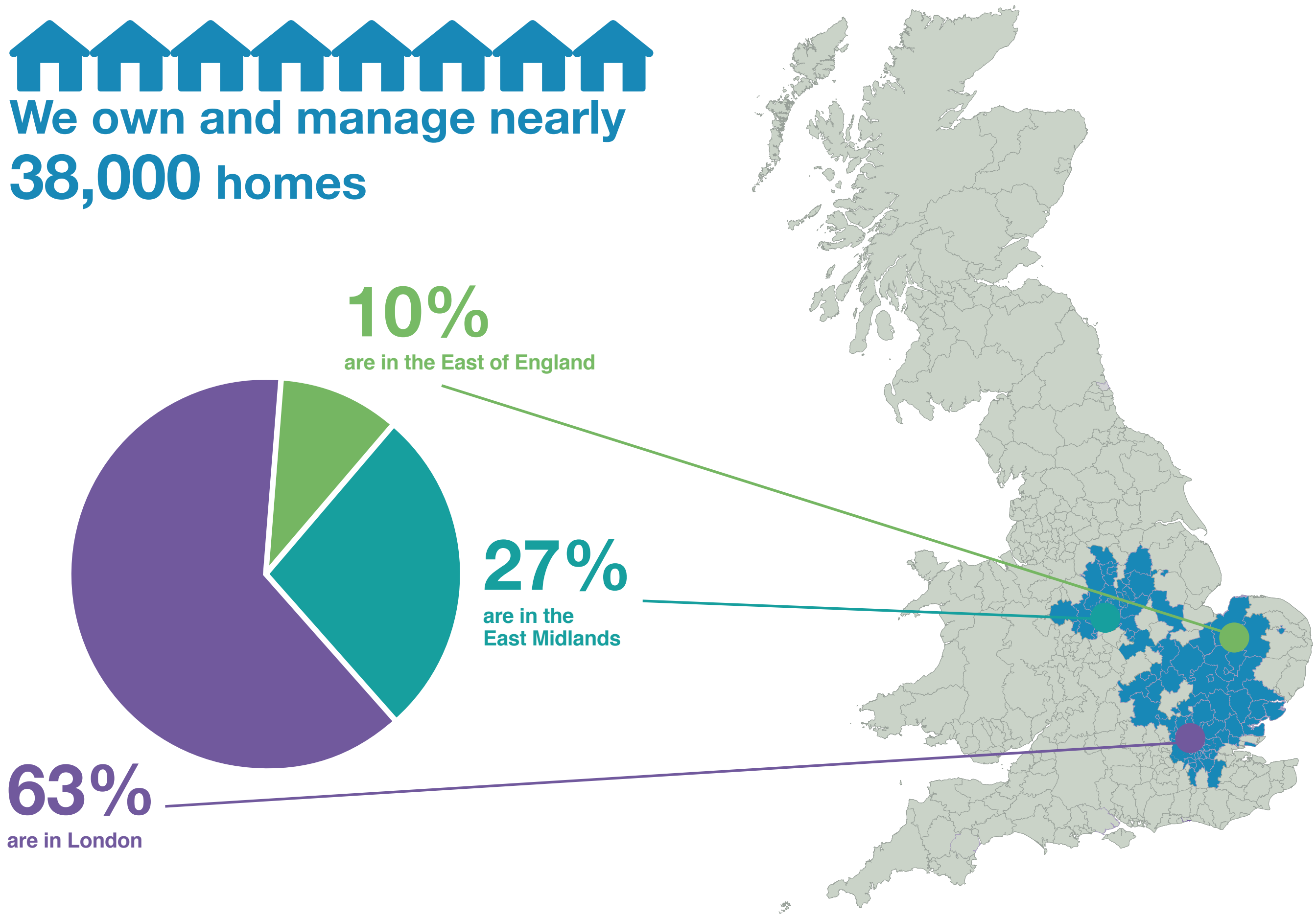
Metropolitan is one of the UK's leading providers of affordable housing and care and support services. We own and manage a large portfolio of nearly 38,000 homes and serve more than 71,000 customers across London, the East Midlands and the East of England.

We employ more than 1,300 people and have drawn together a senior leadership team with a strong commercial focus and clear ambitions for the future of the organisation.

We are a member of the National Housing Federation and the g15, which represents London's 15 largest housing associations and houses one in 10 Londoners.

### Where we operate

**We own and manage nearly**
**38,000 homes**




Our homes in London include:
7,038 in Lambeth
2,389 in Haringey
2,217 in Brent
2,052 in Sutton
1,879 in Enfield

Our homes in the East Midlands include:
3,781 in Rushcliffe
2,604 in Derby
2,256 in Nottingham

Our homes in the East of England include:
1,129 in Cambridge
828 in South Cambridgeshire

## The five things we care about

We have five principles that guide everything we do, the way we do things and the decisions we make.

**Ambitious for our customers, our people, our company**
We demand better. We create environments where people can think independently and act accordingly, taking ownership and making things happen.

**We do what we say, we say it how it is**
Simple and straightforward are our watchwords. When we say we're going to do something we do it. We roll our sleeves up and get on with it. We speak the truth as we see it, saying it how it is. People will trust us. Trust breeds trust.

**Re-thinking to make a difference**
We're restless, we don't stand still. We're passionate about delivering positive change through new and better ways of thinking. We challenge ourselves to think differently and we challenge the status quo. We always want to do better.

**We won't walk by**
We don't tolerate mediocrity. OK is not good enough. When something's not right we speak up, we don't walk by. The pursuit of excellence inspires and drives us. But where we see good, we notice, appreciate and celebrate it.

**Social value through commercial strength**
We're unashamedly commercially minded. It's not just all right to be commercial, it's essential. Being commercial helps us build more houses and invest more in helping people live independent lives.
With commercial pride comes the courage to make the right decisions.

## Our strategy and business goals

**Our mission**
To be a leading provider of packages offering homes that are affordable, along with access to services that enable customers to maximise their independence.

**Key measures**

Financial performance:
operating margin

Development:
number of new affordable homes delivered

Independence:
number of independence steps taken by customers

**Key objectives**

1. Deliver a large number of homes at a level that is consistent with maintaining delivery through downturns in the housing market – in excess of 1,000 per year.
2. Through a constant focus on value for money, remain top quartile in terms of operating margin to support the development programme.
3. Deliver a large number of independence outcomes – in excess of 10,000 per year.
4. Develop the ability to acquire other companies that would enhance our level of services without compromising our financial policy.
5. Increase contribution from the Care and Support business.
6. Deliver consistently and continuously high standards of operations and services.
7. Build a strong external reputation of being a thoughtful, analytical and innovative housing association and become one of the top influencers of the housing and care sector.

# Strategic operational review

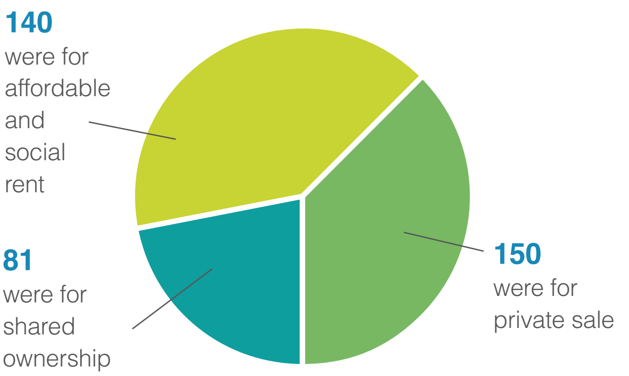
## Delivering new homes

Our focus this year has been on securing the long-term funding to achieve our ambition of delivering new homes at the rate of 1,000 a year by 2017/18.

Securing bond financing means that we can deliver on this promise, but it has also made us a more attractive development partner – providing a base from which to take on larger scale partnerships in the future.

We have re-aligned our team to ensure we have the capacity and capability to realise the opportunities ahead, and we are actively pursuing new regeneration schemes in our core areas of operation.

Alongside our development partners we delivered a total of 371 new units, of which:




Of those 371 homes, 92 formed part of our on-schedule GLA and HCA 2015-18 programmes – through which we expect to receive at least £23m, largely via recycled capital grant funding, to deliver a total of 1,044 homes by 2018.

We invested £114m in the year acquiring land and building new homes, and as of the end of 2015/16, our development pipeline stands at 3,410 units – a 27% increase on last year.

We continue to pursue development opportunities in our established geographical areas of Greater London, the East Midlands and the East of England – with an increasing focus on the M11/M1 corridor.

At our flagship Clapham Park project (operating through our subsidiary Clapham Park Homes) we have now largely completed the refurbishment programme – finishing work on more than 242 homes this year, taking the total number refurbished to 740.

Work started on the next major phase of the scheme with four large blocks demolished and land cleared. We also appointed a master planner for the remainder of the project.

We are now looking to re-organise the Clapham Park Homes financial structure within Metropolitan Housing Trust, in order to resolve some of the funding constraints within that subsidiary that have caused delays in the delivery of our development plans.

We also made progress on our joint venture with Barratt London in West Hendon this year with the next phase secured (through a successful compulsory purchase order) for a further 300 homes. Ultimately the scheme will provide 2,194 homes by 2027/28 – a net gain of 1,545.

## Home ownership

We completed 220 sales during the year – 30 shared ownership sales outside London, 81 shared ownership sales in London and 109 resales. Shared ownership sales included eight flats at Oakhill Park, a former retirement home in Putney, south-west London; and 14 houses delivered in the first phase of Hollygate Park, a major colliery regeneration scheme in Cotgrave, Nottinghamshire.

We also completed a programme of sales and marketing on behalf of Hackney Council, which has helped provide 11 shared ownership homes to eligible local first-time buyers.

## Housing management

Strengthening the performance of our core lettings business continued to be the focus this year. We invested in vital IT systems and infrastructure to give us greater customer insight and we launched our own in-house repairs service, Metworks, to drive up standards in this key area.

Despite a difficult environment of increasing financial pressure on many of our residents, we reduced rent arrears by

**£1.2m** (2015: £1.0m).

Arrears of residents affected by welfare reforms, including the under-occupancy charge, have reduced by

**£159,000** since April 2015.

As Universal Credit rolls out, we will continue to provide targeted support to residents we identify as being at risk of falling into arrears.

We have improved performance and delivered value through faster re-letting of empty properties (voids). At the start of the year the number of void properties was

**650** and by the end it was down to **148**.

This was achieved through tighter internal processes, improved relationships with our contractors, and the prioritisation of work to prepare empty homes which have been allocated.

As part of our plan to improve repairs, our in-house repairs service, Metworks, started operating in the East Midlands in February. In its first calendar month of operation, Metworks had a repairs first-time fix rate of 84%. Metworks is core to our value for money strategy and key to driving down maintenance costs per unit.

In the East of England, given the spread of properties, we made the decision to continue with an external contractor and appointed a new partner, Morgan Sindall, in September. In the same month, we appointed a new contractor, Willmott Dixon, in London. We plan to introduce the Metworks service in the capital in the future.

We have also brought out-of-hours customer call handling in-house to ensure a better, more consistent and direct service, 24 hours a day, seven days a week.

Overall our repairs performance improved with a first time fix rate of 86.2% achieved for the year against a target of 83%.

We doubled investment in our planned maintenance programme, with £20m spent improving general needs homes (2015: £9m). This included replacing 950 kitchens (2015: 482), 703 bathrooms (2015: 320), and 1,438 boilers (2015: 1,100).

We also took steps to improve energy efficiency. We connected 145 off-grid homes to gas networks (2015: 23) and installed insulation at 107 older homes (2015: 83).

The health and safety of our customers is of the utmost importance. This year, we achieved our gas safety compliance target of 100%. By the end of the year, 92.7% of our properties had up-to-date electrical installation condition reports – the outstanding 7.3% was primarily due to access issues, which we are resolving. Following best practice, we also reviewed our electrical testing system to ensure that inspections are carried out every five years (rather than every 10).

We take anti-social behaviour (ASB) very seriously. Our residents and customers have the right to live in a safe, pleasant environment. We remain committed to dealing quickly and effectively with ASB. This year we referred 22 cases for legal action, issued 34 notices with a view to getting possession, obtained possession in 18 cases, secured 10 evictions and issued 23 injunctions, prohibiting people from behaviour such as playing loud music.

In August 2015, the 1,800-home Roundshaw estate in Sutton, south London, transferred to our sole ownership and management. The estate was previously jointly owned and managed by Metropolitan and The Hyde Group. Overall, we gained 145 properties. With a simplified management arrangement for residents, we are able to streamline service delivery and drive greater value for money, while simultaneously improving our service. So far we have improved the response to complaints and the turnaround of empty properties.

Raising levels of customer satisfaction is a key focus for us. Improving repairs has been the first step and we are looking at all other aspects of our services to see how greater levels of satisfaction can be achieved.

The number of complaints we received decreased from 4,962 to 3,740 in the year. A review of our complaints management framework has been running since the beginning of the year. The way in which we record, escalate and resolve customer complaints has been redesigned to ensure we are communicating more effectively with our customers and fulfilling their expectations when things do not go as planned. We have also implemented a service improvement function which investigates the root causes of complaints and implements action plans to prevent recurrence of dissatisfaction.

Our longer-term aim is to secure the accreditation of the national Customer Service Excellence standard at our customer contact centre within the coming year – a major commitment which demonstrates our ambition to improve customer satisfaction.

## Care and support

Our Care and Support business continued to be self-financing and this year we won £2.5m of new business in

**£2.5m new business won**

our areas of specialism: older people, mental health, and 'short stay' services which provide intensive support for short periods.

We achieved this in a challenging market of rising need and reduced levels of funding. We have remained efficient and viable by rigorously managing costs and modelling the long-term impacts of policy change, including the potential capping of Housing Benefit at Local Housing Allowance (LHA) levels.

Our strategic focus continues to be to provide services where people can live as independently as possible and for us to create environments in which people can step down the intensity of support they need.

Towards the end of the year we restructured our new business team to be more regionally focused and better able to respond to the very different commissioning environments in our areas of operation.

New contracts secured this year included:

- Connect, a contract with Nottinghamshire County Council to provide help and support over three years to people who are at risk of losing their independence due to deteriorating health and social isolation.
- The Brent Park Royal extra care scheme, a contract with the London Borough of Brent to provide 24-hour personalised care and support services over three years to residents of the 99-flat scheme for older people.
- Wandsworth Wellbeing, a contract with the London Borough of Wandsworth to support vulnerable older people to remain living independently in their own homes.

We also restructured our operations to provide a more joined-up and responsive offer for customers of our services for older people. Six thousand supported homes are now directly managed by our Care and Support team, rather than through our general housing management service. As a result of this change we have strengthened the senior leadership, bringing in an asset management specialist and new manager roles at a local level.

The new structure has helped us to reduce our number of empty properties and to ensure that our repairs service can respond more effectively to the particular needs of customers in our supported homes.

A total of 226 supported homes have been adapted and upgraded to provide the best possible physical environment. The work included the installation of new kitchens and bathrooms.

Plans have also been put in place to pilot an affordable handyperson service in north London, Derby, Nottingham and Rushcliffe to carry out small but troublesome jobs around the home which are normally residents' responsibility – such as changing light bulbs or assembling flat pack furniture. The aim is to support customers, especially older people, to live more independently in their homes.

As a result of continued pressure on local authority funding and proposed policy changes, we continue to review our contracts and services with a view to reconfiguring and adapting our business plan as necessary.

Safeguarding our customers remains our most important duty. The new Care Quality Commission (CQC) inspection ratings regime came into operation this year for our 21 registered adult care schemes. In anticipation of the new regime, we put in place our own internal audit processes to monitor standards. We will continue to use these alongside our experience of CQC inspections to date to improve our performance.

At the time of writing, 17 of our services have been inspected and of that number, seven were rated 'good', eight rated 'requires improvement' and two rated 'inadequate'. Where standards were challenged we moved quickly to raise them to an acceptable level, in liaison with the regulator and relevant local authority. Following re-inspection, the two services rated inadequate were re-rated as 'good' and 'requires improvement', respectively.

## Our people

During the year we had an average of 1,321 (2015: 1,308) full-time equivalent staff. This included 118 in our new in-house repairs business, Metworks.

A total of 73% of our employees took part in our 'Speak Up' engagement survey and we were very pleased to report a

**7%** increase in overall colleague engagement, from 60% to 67%.

We continue to run a very active diversity and inclusion programme. We have been a Stonewall Top 100 employer for more than a decade, achieving eighth place this year, and we have a number of active staff network groups relating to gender, physical and mental wellbeing at work, and ethnicity.

**No.8 ranking in Stonewall Workplace Equality Index 2016**

Stonewall TOP 100 EMPLOYERS 2016

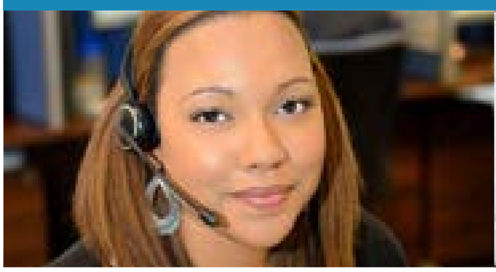
We strengthened our senior management team in the year by hiring a number of new and talented leaders from a range of sectors, providing us with new insights, innovation and best practice. We will also be reviewing our overall reward framework to ensure we remain competitive and attractive as an employer. We launched a core management skills programme and established a new competency framework to strengthen leadership development and positively influence our culture.

To address the issues in the care and support sector around recruitment and retention for the long term, we are currently developing an academy approach to staff training for this important area of the business. This will focus on offering career progression and development, positioning Metropolitan as an employer of choice in the sector.

We are also adapting to new changes to employment legislation, including the National Living Wage which came into effect on 1 April 2016, and the new apprenticeship levy which will be introduced in 2017.

## Supporting infrastructure

We developed a long-term IT strategy which sets out our investment plans for internal systems, as well as how we will use technology, alongside traditional communications, to engage with customers in the future. This includes plans for making better use of mobile devices to support frontline service colleagues and better online services for our customers.




We also completed a data cleansing project to ensure full compliance and that audit procedures are embedded in the business.

In October we delivered the first phase of our new housing management system. This is our key database for managing housing operations and gives us a greater level of insight and performance data.

After the year end we started the second phase of our IT development plan, to provide our teams with new systems and technology to be fully mobile and flexible as they deliver services to our customers on the ground.

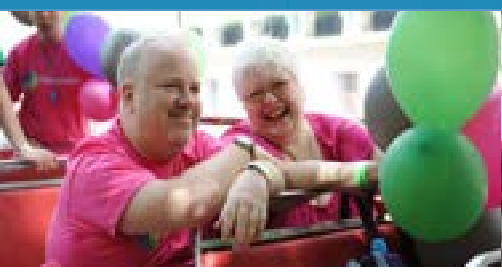
## Health and safety

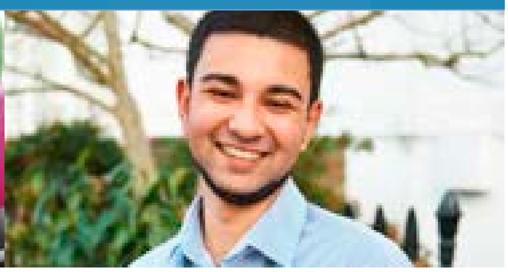
Our health and safety performance was consistent with the sector during the year, with a low accident rate for all employees and contractors.

We commissioned KPMG to conduct a health and safety performance review of the business. The review's findings were integrated into an updated health and safety plan, which included the establishment of a new health and safety committee and best practice-aligned management system.

A major legislative change during the year was the introduction of the new Construction (Design and Management) Regulations 2015, which outlined new health and safety rules for building projects. We prepared for the new regulations by ensuring that appropriate training was delivered to relevant members of the Development team.

We are investing in training to improve risk management by delivering tailored training and coaching, including the Institution of Occupational Safety and Health's Managing Safely training course.





During the year, we had an average of 1,321 (2015: 1,308) full-time equivalent staff – this included 118 new colleagues who we welcomed to our new in-house repairs business, Metworks.

**1,321**

**full-time staff**

## Independence

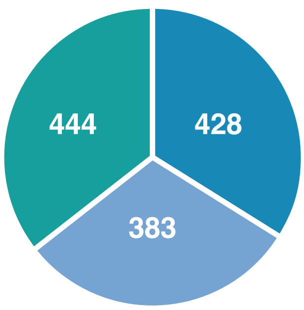
Independence is all about how we can genuinely support our customers to achieve their goals – to the benefit of not only the individual but also society as a whole.

Enabling our customers to achieve their maximum level of personal independence remains our key goal.

We measure our progress through the number of 'independence steps' we facilitate. This year we enabled 7,282 independence steps (2015: 4,754) and next year we have a target to deliver at least 7,500.

## Independence steps 2015/16

### 1,255 People moving towards employment

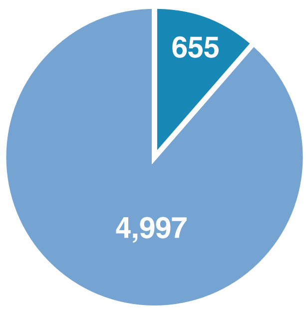



**444**
Customers helped into volunteering

**428**
Customers helped into employment

**383**
Customers gaining qualifications

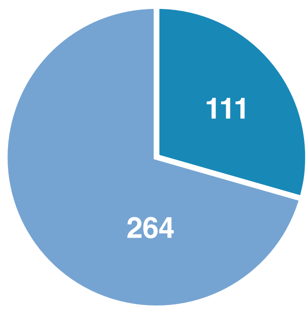
### 5,652 People moving to less intensive support




**655**
Moving to less intensive care and support

**4,997**
Supported to live independently in own home

### 375 People moving towards home ownership




**111**
Customers helped to buy first home

**264**
Customers buying bigger share of their home

## Homeownership

### The Palomo family, Chervil House, Hackney

After renting with Metropolitan for seven years in Hackney, east London, nurses Alexander and Criselda Palomo investigated shared ownership – and finally realised their dream of getting on the property ladder.

Eager to find a bigger property to accommodate their growing family, they signed up with Homematch, Metropolitan's free online service for first time buyers looking to buy an affordable home in London.

They spotted that three-bedroom flats were available at Chervil House, a new development by Hackney Council close to where they work and to their two sons' school.

The family met the Council's priority list requirements and made an offer on the flat, with Metropolitan facilitating the sale. The Palomos opted to buy a 40% share of their home using savings and a mortgage, and they pay rent on the remaining 60%. Going forward, they have the option of buying further shares in their home and 'staircasing' up to full ownership.

Criselda says:

"It's hard for young families to find a home with enough space in London, never mind getting on the property ladder. If any other growing families are feeling desperate I'd say look at our story and know you can also do it through shared ownership."

## Employment

### Keira Brown, former Metropolitan apprentice, now a permanent member of staff

After completing an apprenticeship in business administration with Metropolitan, Keira Brown is now a permanent member of the Home Ownership team and is ambitious to continue building her career.

Attracted to the idea of working at a charitable organisation with a social purpose, she applied for a one-year apprenticeship which included both practical, on-the-job experience and training for a Level 2 National Vocational Qualification (NVQ) in business administration.

Following a successful interview, Keira started working with Metropolitan's Home Ownership team, who offer a range of services to help people get on the housing ladder – including selling affordable shared ownership homes to aspiring homeowners priced out of the market.

Her role involved providing post-sales administrative support to customers – and with guidance and encouragement from the rest of the team, Keira grew into the role so successfully that she stayed on in a full-time position after completing her apprenticeship.

Keira says.

"The apprenticeship has had a really positive impact on my life. I definitely feel like a more confident person, and like I'm a real asset to the team here. I would love to be in a managerial role in the long run, but in the meantime, I'd like to gain some more years of experience and get some further qualifications."

## Volunteering

### Daniel Osinaike, former volunteer, now a Senior Care and Support Worker

When Daniel Osinaike's mum fell ill and moved into one of Metropolitan's sheltered housing schemes, he resolved to do more to help others and decided to look at a career in care and support.

So when a volunteering opportunity at our Southwark Wellbeing Support at Home (SWiSH) service came up, he decided to take it.

Working with manager Vedanand Chumroo and the team, Daniel supported customers with a variety of tasks including shopping for food and clothes, joined them on trips to day centres and hospital appointments, and helped with general administration too.

Five months later Daniel was thrilled to be appointed Senior Care and Support Worker at SWiSH, which supports vulnerable people to remain living independently in their own homes.

Vedanand is delighted to have Daniel as part of the team and said: "Volunteers add another dimension to our work. It can be hard work getting things set up but there are big benefits to all. In my case, the coaching and training paid off and I recruited Daniel knowing he can deliver on the job."

Daniel added:

"I decided I wanted a career helping people after the first couple of weeks volunteering with SWiSH. There's no feeling like going home knowing you made a difference to a person's life. Now, it feels great getting paid to do something that gives me genuine job satisfaction."

## Financial review

There were three financial highlights in the year:

- We secured funding for our long-term development plans by issuing our debut public bond: 167 bps margin, three times over-subscribed and a positive reaction from the market to our maturity and ambition as an organisation.
- As part of this, we obtained a debut credit rating reflecting the progress we have made in improving the business, strengthening controls, delivering value for money and achieving top quartile operating margins.
- We completed the FRS 102 financial re-statement: this is an exercise to improve the quality and consistency of the presentation of financial information. FRS 102 brings the sector into line with generally accepted international accounting principles which in turn facilitates cross-border comparisons of financial performance. The restatement involves a number of accounting policy changes and one-time judgements, and the impact of these is discussed in more depth below.

Adjusted* surplus after tax was
**£77m,** up 28% on last year

## Overview

Group revenues are £235m (2015: £230m), up 2% on the previous year. This increase is due to a £5m rise in lettings revenue (excluding supported housing) which was driven by improved voids and arrears performance, as well as rent inflation. Care and Support revenue (which includes supported housing) was broadly flat year on year. Revenue from first tranche sales was up £6m, but we saw lower revenue from outright sales – down £5m year on year – with other revenues down £1m.

Adjusted* operating surplus is £90m (2015: £85m) – its increase on the previous year has been largely driven by an improvement in our lettings performance as we continue to drive cost efficiencies through the business and deliver value for money. The operating surplus on our total lettings operations (which includes supported housing) was up 3% year on year from £76m to £78m.

Adjusted* surplus after tax was £77m (2015: £60m), up 28% largely as a result of one-off disposal profits arising from the Roundshaw stock swap transaction (totalling £7m), and a strong performance from our home ownership operations – including shared ownership equity sales ('staircasing') and mortgage loan buy-backs ('redemptions'). Net interest cost and related finance charges are up 2% at £49m (2015: £48m), reflecting the higher levels of total borrowings. More details on the performance of the individual operating units and segments are found in the strategic operational review.

Following a triennial valuation of our main defined benefit pension scheme, SHPS, at the start of the financial year, we were obliged to increase our annual payments into the deficit reduction plan. Under FRS 102 we are required to treat movements in the present value of our deficit repayment obligations as a charge to operating expenses of £9m. Surplus after tax for the year, after allowing for this pension charge, was £68m (2015: £60m), up 12%.

Cash generation remained strong with net cash from operating activities of £90m in the year (2015: £104m). Capital expenditure on development projects was £114m (2015: £113m).

Total debt less cash and short-term deposits at 31 March 2016 was £835m (2015: £833m), broadly flat notwithstanding the drawdown of £150m under the bond issue. Available liquidity (cash and committed secured undrawn facilities) is £559m (2015: £293m), up £266m. Based on loan covenants, gearing ended the year at 60% (2015: 57%) and interest cover was 3.0 times (2015: 2.7 times).

* Adjusted and stated before a £9m charge related to pension deficit reduction scheme obligations pursuant to the triennial valuation of the SHPS pension scheme.

## FRS 102 restatement

These financial statements are presented for the first year under FRS 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland.* FRS 102 effectively brings UK public benefit entities under the umbrella of International Financial Reporting Standards (IFRS), thereby bringing those entities into line with UK corporate reporting.

In applying FRS 102 we have restated both the prior year's closing balance sheet (or the Statement of Financial Position, as it is now known) and the prior year's Income and Expenditure Account (or the Statement of Comprehensive Income) having regard to Housing SORP

2014 in respect of sector-specific advice. The notable effects of the FRS 102 adoption are:

- Changes in the present value of obligations under pension deficit reduction plans are charged to operating surplus.
- Mark to market movements on hedged financial derivatives are shown in the Statement of Other Comprehensive Income below surplus after tax.
- Revaluation of the general needs estate under the deemed cost option has added £272m to the opening gross fixed asset cost.
- Housing grant received in respect of general needs housing has been eliminated from the Statement of Financial Position, through a credit to reserves, boosting opening net assets by £976m. Grant received in respect of shared ownership housing has been re-categorised as a long-term creditor.
- Financial derivative contracts, mostly interest rate hedge contracts, have been credited to current and long-term creditors, reducing opening net worth by £41m.

Full details of the accounting impacts of FRS 102 adoption and a reconciliation to the UK GAAP accounts for the year ended 31 March 2015, are included in note 33 to these accounts.

Lettings adjusted operating surplus is £65m (2015: £63m), up 3% in the year, driven by improvement in voids management and reduction in arrears balances, as well as the inflation-linked increases in general needs rents.

Care and Support adjusted operating surplus is £14m (2015: £13.5m) up 3% due to our focus on contracts that meet our performance targets. Combined adjusted operating surplus from first tranche sales (of shared ownership units) and outright sales is £5m (2015: £3m), due to strong price performance and higher volumes of shared ownership units for sale. This lower outright sales volume reflects the decision to cut the development budget in the period 2012-14 while the business re-focused on improving margins and implementing a stronger internal control environment.

## Cash generation

Metropolitan continues to deliver strong operating cash performance with net cash from operating activities of £90m in the year (2015: £104m). Development spend in the year was £114m (2015: £113m). We also had a record year for replacement capital expenditure with a spend of £20m (2015: £9m) across our existing estate, as we strive to improve the overall condition of our housing assets.

## Segment margin analysis

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Revenue £m | Adj* op surplus £m | Adj* margin % | Revenue £m | Op surplus £m | Margin % |
| Lettings (note 1) | 158.8 | 66.2 | 41 | 151.4 | 63.3 | 42 |
| Care and Support (note 2) | 53.4 | 14.0 | 26 | 54.1 | 13.5 | 25 |
| First tranche sales | 12.2 | 3.7 | 30 | 6.4 | 2.6 | 41 |
| Outright sales | 0.4 | 0.2 | 55 | 6.5 | 0.2 | 3 |
| Other | 10.0 | 6.0 | 60 | 12.0 | 5.4 | 45 |
| **Total** | **234.8** | **90.1** | **38** | **230.4** | **85** | **37** |

* Adjusted and stated before a £9m charge related to pension deficit reduction scheme obligations pursuant to the triennial valuation of the SHPS pension scheme

Notes (see notes 2a and 3 on pages 45 and 47)

1) Lettings includes general needs housing, other housing provision and LCHO

2) Care and Support includes supported housing, Supporting People and registered care homes

## Balance sheet

The net book value of housing assets was £2,729m (2015: £2,705m), with £14m (2015: £14m) of depreciation charged in the year. This figure includes assets under construction at 31 March 2016 of £179m (2015: £159m). Current assets

**£2.73bn**
Net book value of housing assets 2016

(including development work in progress) were £250m (2015: £194m) reflecting higher levels of development WIP and higher cash balances, following the bond issue. Short- and long-term creditors are £1,665m (2015: £1,609m), including borrowings of £1,095m (2015: £980m) and £368m (2015: £396m) of grant. Total provisions amounted to £48m (2015: £56m), as we utilised various provision balances, largely in respect of transactions relating to our VAT shelters.

## Funding and Treasury

At 31 March 2016, Metropolitan had net debt (as defined by our covenants) of £868m (2015: £903m) and cash of £182m (2015: £121m). A total of 96% (2015: 90%) of the loan book at 31 March 2016 was fixed with the remainder at floating rates of interest ranging from 3% to 12%. At 31 March 2016 we had £189m (2015: £189m) of outstanding floating-fixed derivative contracts.

**£250m**
Debut public bond value

In September 2015 Metropolitan was awarded an AA- credit rating by Standard & Poor's. This credit rating preceded the issue of Metropolitan's first ever public bond of £250m, reflecting the organisation's maturity, financial strength and development ambition. The issue was three times oversubscribed and was priced at a margin of 167 basis points, which compares favourably with the margins achieved by other initial public issuances in the sector. Of the £250m, £150m was drawn down with £100m retained and fully secured ready for future issue.

Net interest costs for the year ended 31 March 2016 were £49m (2015: £48m), reflecting the higher levels of total debt during the year. External interest receivable amounted to £3.2m (2015: £3.8m) and total interest payable was £52m (2015: £52m).

At 31 March 2016 Metropolitan had committed undrawn facilities of £332m (2015: £209m) in addition to cash and short-term investments balances. This represents £559m (2015: £293m) of available liquidity. Cash is invested at average returns of 0.71% (2015: 0.76%). Metropolitan remains well-funded and has sufficient resources to meet the requirements of its future development plans.

## Managing Treasury risk

Treasury risk management is a key and complex area of financial control and is included here separately from the report of the Board and the statement on internal controls.

## Governance and control

Metropolitan operates a central Treasury function under a Head of Corporate Finance who reports to the Executive Director of Finance. Oversight is provided by a Treasury Committee of experienced and qualified non-executives who report in turn to the main Board. The activities of the Treasury function are governed by a Treasury strategy and policy which is approved each year by the Treasury Committee and Board. The policy is based on the CIPFA Code of Practice for Housing Associations as well as Treasury management policy statements and good practice notes issued by the Homes and Communities Agency (HCA) and its predecessor bodies.

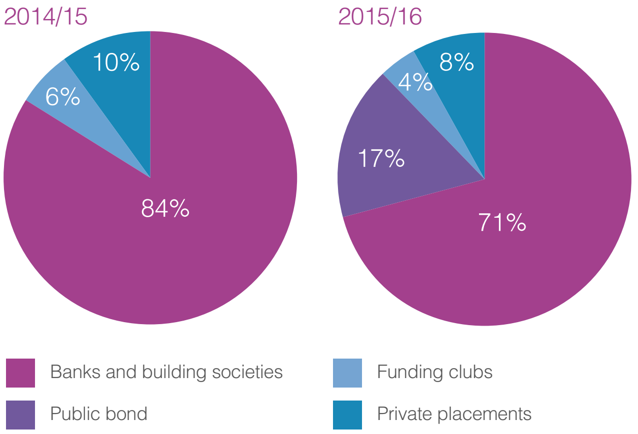
A risk-based approach is adopted with the overriding objective of managing risk in line with the Board's risk appetite. Risks are regularly assessed and recorded in the Finance risk register, which forms part of the organisation's risk register.

The Treasury policy does not permit the speculative trading of instruments and seeks to ensure that the long-term mix of fixed-floating interest costs is 75:25.

## Loans and credit structure: maturity risk

Metropolitan is funded from a number of sources including long-term loans, bonds, retained earnings and various forms of grant primarily provided by government agencies. All funding is denominated in sterling – Metropolitan has no foreign exchange exposures.

As mentioned above, the group has undrawn facilities which are fully secured and available at 48 hours' notice. The funding sources are split as follows:




As detailed in note 23 to the accounts, the borrowings and related interest rate hedges are structured with staged maturities to ensure that no more than 10% of the total loan book matures in any one year and to mitigate the related refinancing risk. Metropolitan group has £109m (2015: £102m) of loans maturating in the next five years which represents 10% (2015: 10%) of our total drawn loans.

## Interest rate risk

Metropolitan has entered into a number of hedging contracts in order to mitigate the risks on interest cost volatility arising from its floating rate debt and RPI-based cash flows. At 31 March 2016 96% (2015: 90%) of Metropolitan's total debt cost was hedged either by fixed interest arrangements, floating-fixed swaps or index-linked loans.

Metropolitan has £189m (2015: £189m) nominal value of ISDA swaps which hedge interest costs at rates between 2% and 6%. At 31 March 2016 it had no basis swaps (used to match payment timing differences; 2015: £30m). The mark to market exposure is monitored closely and collateralised with a mixture of cash and property assets.

## Counterparty risk

Surplus cash is invested with approved banks and counterparties with the priority on the preservation of capital rather than maximising returns. Treasury policies require that the maximum deposit exposure to any approved bank is £20m, with the exception of Lloyds Bank plc which has an unlimited deposit limit, but is also the biggest lender.

## Covenant compliance

Metropolitan's loan covenants are based primarily on interest cover and gearing ratios. Interest cover is calculated after adding back housing property depreciation and includes surpluses from property sales. Gearing is calculated as total debt divided by the total of reserves and housing grant. Interest cover and gearing ratios are monitored monthly and reported to the Board.

At 31 March 2016, Clapham Park Homes Ltd (CPH) had separate loan covenants relating to its external debt and it was fully compliant for the year ended 31 March 2016. As we have announced, we are in the process of restructuring the Group under a Transfer of Engagements which it is proposed will transfer the assets and liabilities of CPH into Metropolitan.

## Liquidity risk

We prepare monthly and quarterly cash flow re-forecasts and, at least annually, we prepare a budget and long-range forecasts to ensure that we expect to operate within our internal limits for covenants, even under highly adverse changes in performance and market conditions.

Forecast surplus funds are used to repay revolving debt as permitted by our loan agreements. Short-term surplus cash balances are placed on deposit for terms of not more than 90 days, on a portfolio basis in order to minimise counterparty risk and comply with treasury policy. Cash balances held are sufficient to fund short-term development, capital expenditure and working capital requirements.

Metropolitan has sufficient financing in place to cover its existing operational and development commitments to completion, including the Clapham Park regeneration.

# Value for money

## What value for money means at Metropolitan

Value for money at Metropolitan is embedded in our organisational DNA and drives our core values, including 'delivering social value through commercial strength'. It is through understanding our costs and operating performance that we improve our performance on value for money. Our recent performance on operating margin provides evidence of the focus that lowering costs and improving efficiency has at Metropolitan. Looking forward, increasingly, it will be by changing how we work that delivers improvements in value for money – and a number of examples are discussed below.

But there is more to delivering value for money than simply lowering costs and driving efficiency because we are here, first and foremost, to provide a service to our residents. Value for money is also about doing the most we can for our customers. Our measurement of independence steps is one of the ways in which we assess the social value we deliver. For Metropolitan, delivering value for money is about balancing the interests of all our stakeholders.

## What our regulator wants to see

The HCA's Value for Money Standard requires each registered provider to truly understand its cost base and return on assets and have the appropriate performance management and scrutiny functions in place to deliver improved value for money. Only by doing this can we make informed financial trade-offs towards achieving our corporate objectives. We report on value for money annually in September – and this report is published on our website.

## How we deliver value for money

Our Board is accountable for ensuring our compliance with the regulatory standards. But throughout the organisation, integrated processes ensure that we deliver value for money.

- Governance: Our Executive Team and Board scrutinise performance, review policies and ensure compliance.
- Business planning: The budgets and objectives set by the organisation seek to 'raise the bar' on performance and efficiency.
- In-depth cost-base analysis: We have a number of initiatives, e.g. on asset performance or service charging, aimed at developing a richer understanding of our cost base, in order to identify opportunities for further improvement
- Performance tracking: We scrutinise and report on our ongoing operating performance to identify trends and areas of opportunity for improvement.
- Developing new operating models: Where the operation can be improved, we constantly look at ways of delivering better service more efficiently.
- Resident involvement: We use resident forums to capture valuable feedback from our residents on where and how to improve – this helps us understand value for money from the perspective of our customers.
- Our colleagues: Our people are key to delivering the right service to our residents and we are reviewing our reward and recognition policies in order to ensure we drive the right delivery.

## Our value for money performance

Some of our key costs lines are shown in the table opposite as actual and on a per unit and % of revenue basis. Having moved through a turnaround stage, the metrics are now stabilising. There are a number of comments to be made:

- In the last year, we have made a number of senior appointments in order to drive our strategy and these are reflected in increased staff costs. The staff cost base is also impacted by the move towards in-house contracting.
- The increase in asset-related costs is a function of both resolving issues with some contractors but also of our increased focus on investing in the maintenance of our assets and the quality of our service to customers with our emphasis on getting repairs right first time.
- Positive progress has been made on arrears and voids performance, and plans are in place to improve these further.

| Actuals (£m) | | 2015/16 | 2014/15 | 2013/14 |
|---|---|---|---|---|
| Key denominators | Units owned | 35,984 | 35,627 | 35,503 |
| | Units not owned but managed | 1,847 | 2,788 | 2,818 |
| | Total units | 37,831 | 38,415 | 38,321 |
| | Staff FTE | 1,321 | 1,308 | 1,453 |
| | Group revenue* | £234.9 | £230.3 | £256.2 |
| Central costs | Staff cost base | £49.6 | £42.3 | £44.2 |
| | IT costs | £5.0 | £5.3 | £5.2 |
| | Printing and copying | £0.2 | £0.2 | £0.5 |
| | Office property costs | £2.2 | £2.5 | £3.4 |
| Financing costs | Debt interest costs* | £52.3 | £52.0 | £52.3 |
| Key operating costs | Responsive repairs | £18.6 | £14.0 | £16.7 |
| | Planned maintenance | £9.1 | £7.5 | £7.4 |
| | Major works | £2.0 | £2.6 | £1.9 |
| Opportunity costs | Lost revenue | £4.3 | £5.3 | £3.6 |
| | Arrears | £21.8 | £23.0 | £22.9 |

| Per unit | | 2015/16 | 2014/15 | 2013/14 |
|---|---|---|---|---|
| Central costs | Staff cost base | £1,311 | £1,101 | £1,153 |
| | IT costs | £132 | £138 | £136 |
| | Printing and copying | £5 | £5 | £13 |
| | Office property costs | £58 | £65 | £89 |
| Financing costs | Debt interest costs | £1,382 | £1,354 | £1,365 |
| Key operating costs | Responsive repairs | £492 | £364 | £436 |
| | Planned maintenance | £241 | £195 | £193 |
| | Major works | £53 | £68 | £50 |
| Opportunity costs | Lost revenue | £114 | £138 | £94 |
| | Arrears | £576 | £599 | £598 |

| % of revenue | | 2015/16 | 2014/15 | 2013/14 |
|---|---|---|---|---|
| Central costs | Staff cost base | 21.1% | 18.4% | 17.3% |
| | IT costs | 2.1% | 2.3% | 2.0% |
| | Printing and copying | 0.1% | 0.1% | 0.2% |
| | Office property costs | 0.9% | 1.1% | 1.3% |
| Financing costs | Debt interest costs | 22.3% | 22.6% | 20.4% |
| Key operating costs | Responsive repairs | 7.9% | 6.1% | 6.5% |
| | Planned maintenance | 3.9% | 3.3% | 2.9% |
| | Major works | 0.9% | 1.1% | 0.7% |
| Opportunity costs | Lost revenue | 1.8% | 2.3% | 1.4% |
| | Arrears | 9.3% | 10.0% | 8.9% |

* Restated in 2014/15 under FRS 102

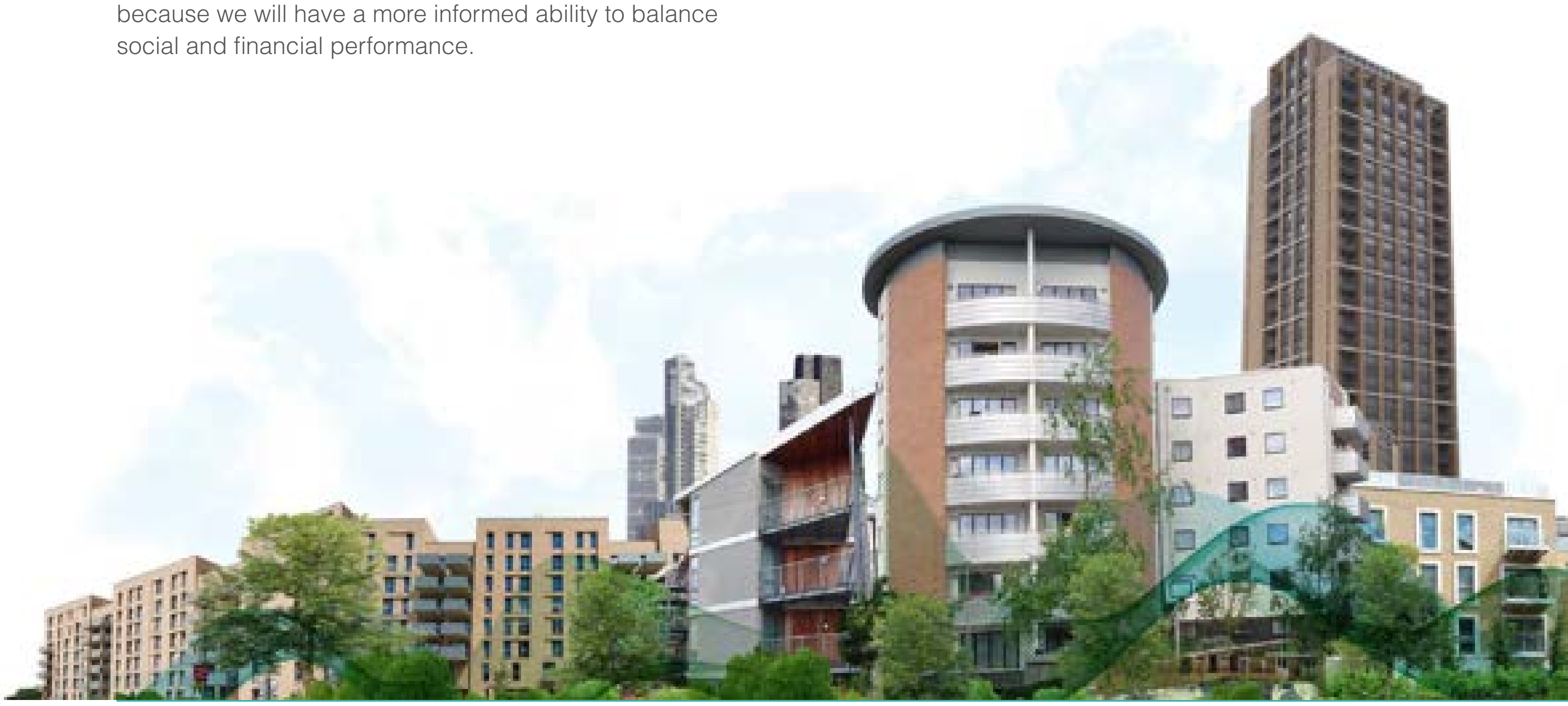
## Understanding our return on assets

We compare the return on assets of our letting properties (general needs, supported housing, etc.) with our low cost home ownership (LCHO) properties. Overall, we have seen a 0.5% improvement between 2014/15 and 2015/16.

| Return on assets calculation (£'000s) | 2016 Letting | 2016 LCHO | 2016 Total | 2015 Total |
|---|---|---|---|---|
| Surplus | 65,227 | 15,393 | 80,620 | 76,438 |
| Net book value (based on closing net assets - deemed cost) | 2,235,633 | 297,379 | 2,533,012 | 2,830,391 |
| Return on assets calculation (£'000s) | 2.9% | 5.2% | 3.2% | 2.7% |

Metropolitan is refining its portfolio strategy by looking at asset performance at a more granular level, to understand asset performance at area, street/estate and ultimately unit level. This will drive approaches to asset maintenance, acquisition and disposal for instance.

Allied to this financial return on asset view, is our understanding of the social impact of our activities. By looking at a number of measures for the social benefit our presence in an area brings, we will be able to refine our portfolio strategy by making informed trade-offs between financial and social return. As we include further customer insight into our analysis, we will be able to make more rounded decisions on how and where we invest because we will have a more informed ability to balance social and financial performance.



In any commercially focused organisation, there is always a trade-off between driving down the cost per unit and optimising the service delivered. While recent HCA analysis benchmarks us favourably on costs per unit versus our sector peers, there are a number of activities underway to ensure we manage this trade-off with even greater vigilance.

- Embedding unit cost analysis more deeply within the budgeting process.
- Refreshing asset and service standards so that we are clear on what our optimal service level is.
- Exploring more innovative partnerships with our suppliers to deliver better service at lower cost.
- Undertaking strategic reviews in key cost areas (such as IT) to understand the benefits as well as the costs of different approaches. The short-term lowest cost option may not always be in the best long-term interest of the organisation.

## Delivering value for money

The following examples give a flavour of the breadth of Metropolitan's activity in this area:

- Procurement has focused on improving process compliance through structured engagement with the business, a movement to open market tendering and the use of technology (e.g. Delta, for competitive tendering).
- METTS, our tenancy sustainment service, works with customers to keep them in their homes by providing floating support, coordinated with Income Collection and Financial Inclusion teams. Future work is planned on understanding the drivers of tenancy issues which will allow even better targeting of preventative work.
- Asset management is moving away from a component-based approach on planned works to a property-based approach. Combined with improved procurement planning, this is making planned work more efficient and cost effective.
- With robust information about the condition of our housing stock, we have increased our investment in major and planned maintenance during 2016 to a level that will maintain the good condition of our housing stock while improving service levels to our customers and ensuring value for money to Metropolitan.
- Our development team is taking a portfolio, rather than individual development, approach to managing the development pipeline. This has the benefit of ensuring that we stay within our policy framework (e.g. the % of PRS we will tolerate) while giving us greater flexibility to deliver our overall development objectives.
- Our Neighbourhood Investment team continue to work with local residents on financial and digital inclusion and have developed a very effective programme helping residents into employment – as well as helping to identify and address issues such as rent and benefit fraud.
- After some challenges with our repairs contractors, we have developed a partnership approach with Willmott Dixon, which is working with us on our transition to in-house contracting.
- Our Care and Support team have a structured approach to understanding the performance of their schemes and a process for working with those whose performance requires improvement.

## Future plans

Running though our business plan are several strands that will enhance value for money. These include:

- Further roll-out of our in-house contractor, giving us both greater cost control and the ability to deliver a more efficient, seamless service to our residents.
- Investment in external data through 'Neighbourhub', in order to better understand the performance of our portfolio.
- Development of our approach to 'Pay to Stay', allowing us to focus our investment on the groups in most need.
- Detailed cost analysis on our service charges to improve both transparency and efficiency of collection.
- Investment in mobile working technology, to allow our colleagues in the field to be connected to the data and systems they require, making them more effective.
- Moving towards a 'single visit' philosophy, whereby multiple customer requirements or compliance checks can be completed in a single visit to a property.

# Statement on corporate governance

During the year, Metropolitan adopted the National Housing Federation's (NHF) 'Code of governance – promoting board excellence for housing associations' (2015 edition). Metropolitan complies with the requirements of the code and in fulfilling its obligations under the code, makes use of good practice drawn from guidance associated with the code, the UK Corporate Governance Code and, where relevant, the Charity Commission.

## Governance

The Metropolitan Housing Trust (MHT) Board acts as the Parent Board for the Group with overall responsibility for Group strategy and management. MHT and its subsidiaries are governed by the same policies. Each subsidiary also has a board and the Parent Board has nomination rights to each of the subsidiary boards, and makes all the appointments to its committees. The main subsidiary is Clapham Park Homes Limited, and both MHT and Clapham Park Homes Limited are registered providers of social housing. Clapham Park Homes Limited is also a registered charity. The other group subsidiaries are Metropolitan Living Limited, Clapham Park Development Limited (a subsidiary of Clapham Park Homes Limited), EM Property Services Limited (our in-house repairs contractor), Metropolitan Funding PLC, (our funding vehicle), Longsdale Limited and Spiritagen Limited. The wider group also includes two joint ventures which operate through limited liability partnerships.

The MHT Board has satisfied itself that the organisation complies with the HCA's Governance and Financial Viability Standard.

During the year the MHT Board met on twelve occasions, including two strategic away-day sessions when the Board considered future growth and development plans and the Group's long-term strategy.

The MHT Board comprises eight non-executive members and one executive member (the Chief Executive). There are Parent Board members on the boards of all subsidiaries in the Group, which provides a clear line of sight to the main MHT Board.

The Board committee structure includes the following Group committees:

## Safeguarding and Quality Committee

The Safeguarding and Quality Committee provides assurance that Metropolitan is a quality provider of care and support services and safe housing services for vulnerable children and adults. The committee reviews how Metropolitan responds to serious incidents of harm to customers and colleagues, reviews outcomes from Care Quality Commission reports and embeds learning from these throughout the business. The committee includes input from independent external experts in the safeguarding field.

## Audit and Risk Committee

The Audit and Risk Committee is responsible for ensuring that internal controls are adequate and effective and that the organisation's approach to risk management is commensurate with risk appetite. The committee approves the internal audit work plan and reviews internal audit findings. It recommends the appointment of internal and external auditors.

The committee reports to the Board by considering and addressing significant issues relating to the financial statements, including the accounting policies.

## Development Committee

During the year, a decision was taken to change the remit of the previous Investment and Finance Committee so that it would provide oversight on investment in new developments, including any new or innovative proposals, and an understanding of funding mechanisms. The committee was renamed the Development Committee and during the year it has met on two occasions. Its remit also includes oversight and assurance of regeneration activity at Clapham Park and West Hendon, and key metrics for development finance and appraisal assumptions.

## Customer Services Committee

The focus of our main customer-facing committee has changed and the Customer Services Committee (CSC) now provides assurance to the Board on our service delivery and customer service. There is an improved synergy between CSC, the customer-led scrutiny committees through their service audits, and the National Customer Group, providing valuable customer insight. The committee is combining its meetings with estate visits in order to develop members' knowledge about our properties. The committee includes four resident members.

## Treasury Committee

The Treasury Committee provides an expert focus on the management of the Group's loans and investments portfolio.

## Nominations Committee

The Nominations Committee keeps under review the composition of the Board and the framework for appointing, developing and appraising Board members.

## Remuneration Committee

The Remuneration Committee has oversight of pay and remuneration matters, including Board member remuneration.

### Achievements

During this financial year the Board has implemented further improvements to its governance arrangements.

These include the following:

- Adopting the NHF's new Model Rules 2015, which are compliant with current legislation, good practice and recent changes to the HCA's regulatory requirements.
- Establishing a new board and governance arrangements for our in-house repairs contractor (Metworks) which went live in the East Midlands in February 2016.
- Improving our internal compliance frameworks which provided additional assurance to the MHT Board around legislative and regulatory compliance.
- Maintaining a G1 rating from the HCA.

The roles of Chair of the Metropolitan Board and Chief Executive are separate, reflecting the different responsibilities of leading the Board and the Executive. These roles are defined in writing and each member of the Board is bound by an agreement for services, the code of conduct and other agreed policies and documents. The secretary keeps a group register of Board members' interests which is updated on a regular basis.

Customer participation is achieved through the Customer Services Committee, scrutiny committees and the National Customer Group. Customers are members of the Board of Clapham Park Homes and the Parent Board.

As a social business we believe corporate responsibility and sustainability should be embedded across our organisation. This includes working with suppliers to embed sustainable practices and our commitment to openness and transparency.

## Induction, development and appraisal of non-executive Board members

All non-executive Board members are required by the rules to be members of Metropolitan. All Board members have the same legal status and share responsibility equally for decisions taken by the Board, regardless of whether they are executive, non-executive or residents.

During the year, the Board undertook a review of its effectiveness and working arrangements; the results of which concluded that the Board was effective, was clear about its objectives, was satisfied with improved performance reporting and would pro-actively seek to understand organisational learning from post-evaluation reviews of significant projects.

## Remuneration of non-executive Board members

The level of remuneration of Board members has been arrived at after benchmarking levels of Board member pay in comparable housing associations and takes into account the need to attract, retain and motivate members who have the required levels of skill and experience. Board members' salaries were increased in 2014/15; these levels have been maintained for this financial year and there has not been any increase made during the year.

Metropolitan has robust, transparent and independent systems for recruitment of Board members. Advertising for new members is sufficiently broad to ensure that equal opportunities and diversity standards are met and the recruitment process is governed by principles of transparency, openness and accountability. No new Board members were recruited during the year.

Individual Board members' performance is appraised annually by the Chair and each Board member has clear objectives for the year. The Chair's role is annually appraised by reference to their role profile. There are clear mechanisms in place for members who fall short of required standards.

Note 10 in the notes to the accounts shows the salaries paid to Board members and expenses incurred during the discharge of their duties during 2015/16.

# Board statement on internal control and risk

Expenses mainly comprise travel costs incurred in order to attend Board and Committee meetings. Board members are based in geographically diverse areas of the country and so the necessary travel expenses incurred in order to attend meetings will vary between members.

## Internal control and risk

The Board has overall responsibility for the system of internal control and risk across the Group and for reviewing its effectiveness.

## The review process

The internal control framework is designed to manage and reduce, rather than eliminate, the risk of failing to achieve business objectives. It can only provide reasonable, not absolute, assurance against material misstatement or loss.

The framework also exists to give reasonable assurance about the reliability of financial and operational information and the safeguarding of Metropolitan's assets and interests. The Audit and Risk Committee regularly reviews the effectiveness of internal controls through the assurance provided by internal audit, regular updates on risk management and assurance provided by the Executive Team.

The Board is responsible for overseeing the framework of delegation and systems of internal control, including risk appetite and strategic risks. The Board has reserved certain matters to itself, including determining the long-term business objectives of the group and any material decisions. A formal scheme of delegation and financial regulations set out the delegations framework in place for Board committees, the Chief Executive and the Executive Team. Board committees provide assurance to the Board on key areas of activity such as service delivery, safeguarding, and finance and treasury.

## Key risks and mitigations

The key risks and how they are mitigated are summarised below. The approach to strategic risk identification and risk management is firmly embedded across the Group. Management responsibility is clearly defined with regard to the identification, evaluation and control of significant risks. The formal ongoing process of risk review includes a strategic risk review at each meeting of the Audit and Risk Committee and the Board. The review by the Executive Team includes a review of the strategic risks and scheduled review of risk registers for each operational area.

At Metropolitan we have a systematic approach to risk and uncertainty that has been embedded within the business at multiple levels. This approach ensures ownership of risks, and the management and mitigation of them throughout the organisation.

Each operational area of the business has developed a risk register which is reviewed by its management team on a periodic basis. Risks can then be escalated to the next level based on an internal scoring matrix. These risks are then re-assessed and a decision is taken as to whether or not they should remain on the next level risk register. This process is continued at each level, ensuring that those areas that need focus at different levels within the Group receive the right levels of scrutiny.

At a Group level the risk register represents a combination of risk that may impact on our ability to achieve our strategic goals, as well as those that may have a significant impact on our operations. The risk register is reviewed by the Executive Team each month, the Audit Committee each quarter and the Board at all of its formal meetings.

The Board has also agreed its 'risk appetite' across various aspects of the organisation's work under the headings of finance, reputation, licence to operate, ethics and mission. In the areas summarised below, the risk rating, after mitigation is taken into account, is considered to be at, or heading towards, an acceptable level.


Six Hills House in Stevenage, Herts

## Key corporate risks

| Risk area | Description | Risk rating | Mitigation | Control measures | Ranking after control |
|---|---|---|---|---|---|
| **Current political environment results in policy decisions with serious consequences** | Welfare reforms to be implemented over the next three years will make it harder to collect rent income. | | Using customer insight to proactively help us identify and provide support to those likely to be affected by welfare changes.<br>Targeted approaches from Income and Financial Inclusion teams. | Income Functional Plan in place. | |
| **Failure in duty of care** | Deaths or serious injuries for which Metropolitan is responsible. | | Self-assessment process in place for care and support projects measured against CQC criteria.<br>Care Act compliant e-learning in place. | Safeguarding reporting established.<br>Designated Adult Safeguarding Manager role agreed. | |
| **Clapham Park Regeneration** | Exposure to lower margins on open market sales.<br>Inability to secure satisfactory building contracts. | | Agreement of business plan with funders.<br>Closer alignment with parent body. | Formal transfer of engagements to take place. | |
| **Management of change** | Ability to deliver business plan objectives during period of change. | | Business plans in place including resourcing requirements. | Internal audit.<br>Business performance reviews. | |
| **Failure to build talent** | Inability to deliver key corporate priorities. | | Formal succession plans developed. | Management oversight<br>Leadership Development programme. | |

Specific financial risks are dealt with in the Executive Director of Finance's review.

## Information and financial reporting systems

Our business plan is monitored continuously by management and the Board to ensure that the business remains financially healthy and that targets for financial growth and other objectives are met in order to enable the delivery of our social objectives. The business plan is stress-tested against a range of challenging regulatory, investment, economic, financial and business performance scenarios.

Our ability to control the business and monitor progress against plan has been enhanced by making improvements to the quality of our performance reports and monthly management accounts.

## Fraud

Fraud is an ever-present threat to resources and may occur from outside or from within the organisation. Metropolitan has an approved fraud policy that covers the prevention, detection, investigation and reporting of fraud, including remedial action to prevent a recurrence. All cases of fraud and attempted fraud are reported to the Executive Team and to the Audit and Risk Committee. The policy was reviewed by the Audit and Risk Committee in April 2016. The group has appointed a Money Laundering Reporting Officer as part of its compliance with anti-money laundering legislation.

## Anti-bribery and whistleblowing

Metropolitan values its reputation and is committed to maintaining the highest possible ethical standards in all its business activities. Metropolitan has a whistleblowing policy, 'Won't walk by', that encourages staff and others to express any serious concerns regarding suspected misconduct or malpractice going on within the organisation. Our anti-bribery policy makes clear that we have zero tolerance of any form of bribery. These policies were reviewed by the Audit and Risk Committee in April 2016.

## Monitoring, control environment and control procedures

A process of control, self-assessment and regular management reporting on control issues provides hierarchical assurance to successive levels of management and the Board, together with an auditable trail of accountability. The certification is tailored to reflect the potential risks and the control environment of the business. This enables corrective action to be taken where appropriate and provides assurances to management and the Board. The CEO provides an annual assurance report to the Audit and Risk Committee and the Board, which includes assurance that key legislative and regulatory requirements have been met.

The Code of Conduct sets out Metropolitan's expectation of staff with regard to quality of service, business disciplines, honesty and integrity. It is supported by a framework of policies and procedures with which staff must comply.

These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection, and fraud prevention and detection. Policies are periodically reviewed in accordance with a prescribed timetable.

## Audit assurance

The internal audit function is outsourced and reports directly to the Executive Director of Finance and has direct access to the Audit and Risk Committee. The internal audit programme of work is aligned to strategic objectives and risk. The Audit and Risk Committee meets four times a year and considers internal control and risk management at each meeting. The committee provides an annual report to the Board and a report following each of its meetings. The work of the external auditors provides further independent assurance on the control environment as described in their audit report. Metropolitan receives a letter from the external auditors identifying any weaknesses in internal control with recommendations for improvement. This letter is considered by the Audit and Risk Committee together with a detailed action plan to address any issues. A review of the effectiveness of the internal and external auditors is scheduled to take place annually.

## Going concern

After making enquiries, the Board has a reasonable expectation that Metropolitan has adequate resources to continue in operational existence for the foreseeable future. For this reason the Board continues to adopt the going concern basis in preparing the Group and Trust financial statements.

## The Modern Slavery Act 2015

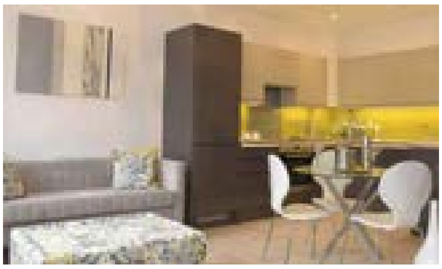
The Modern Slavery Act requires Metropolitan to disclose information relating to the steps we have taken to ensure there is no slavery or trafficking in its own business or supply chains.

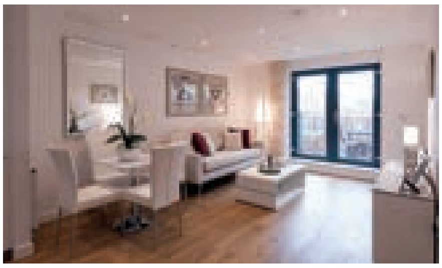
The risk of slavery and human trafficking within our organisation is avoided and mitigated by policies and procedures.

We consider our greatest risk of slavery and human trafficking to be in the sourcing of our supply chains when undertaking procurement activities. We have zero tolerance to slavery and human trafficking. We expect all those in our supply chain and contractors to comply with our values.

As part of our continued commitment to identify and mitigate risk we use the central government procurement documents which address modern slavery. Where applicable our procurement documents request transparency in relation to working conditions including health and safety, fair remuneration, non-discrimination and forced, cheap labour. We continue to expect our incumbent and new suppliers to have up-to-date, suitable anti-slavery and human trafficking policies and processes.

Our modern slavery policy was taken to the Board and approved on 26 May 2016. The full policy document is available on our website.




# Statement of responsibilities of the Board

The Board is responsible for preparing the operating and financial review and the Group and Trust financial statements in accordance with applicable law and regulations. The Co-operative and Community Benefit Societies Act 2014 requires the Board to prepare financial statements for each financial year. Under that law, the Board has elected to prepare the financial statements in accordance with UK Accounting Standards. The Group financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Trust, and of the surplus or deficit of the Group for that period.

In preparing the Group and the Trust financial statements, the Board is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Trust will continue in business.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Trust and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2012. It has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Trust and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the Metropolitan website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Auditors

BDO LLP is the organisation's external auditor. A resolution to re-appoint BDO LLP will be proposed at the Annual General Meeting in 2016.

## Disclosure of information to auditors

The Board members who held office at the date of approval of this Board report confirm that, so far as they are each aware, there is no relevant audit information of which the Trust's auditors are unaware, and each Board member has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Trust's auditors are aware of that information.

Signed on behalf of the Board

**Paula Kahn, Chair**

21 July 2016

# Independent auditor's report

To the Members of Metropolitan Housing Trust Limited

We have audited the financial statements of Metropolitan Housing Trust Limited for the year ended 31 March 2016 which comprise the consolidated and society statement of comprehensive income, the consolidated and society statement of financial position, the consolidated and society statement of changes in equity, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including, Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the society's members, as a body, in accordance with the Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the board and auditors

As explained more fully in the statement of board member responsibilities, the board members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

## Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the group and parent society's affairs as at 31 March 2016 and of the group's and parent society's surplus for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014 and the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- The information given in the Report of the Board for the financial year for which the financial statements are prepared is not consistent with the financial statements;
- Adequate accounting records have not been kept by the parent society; or
- A satisfactory system of control has not been maintained over transactions; or
- The parent society financial statements are not in agreement with the accounting records and returns; or
- We have not received all the information and explanations we require for our audit.

BDO LLP, statutory auditor
Gatwick, West Sussex
United Kingdom

22 July 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Consolidated statement of comprehensive income and expenditure for year ending 31 March 2016

| | Note | Group 2016 £'000 | Restated Group 2015 £'000 | Trust 2016 £'000 | Restated Trust 2015 £'000 |
|---|---|---|---|---|---|
| **Turnover** | 2 | 234,897 | 230,365 | 226,156 | 195,018 |
| Cost of sales | 2 | (8,525) | (9,806) | (8,472) | (4,426) |
| **Operating costs** | 2 | **(136,270)** | **(135,609)** | **(129,451)** | **(110,089)** |
| **Adjusted operating surplus** | 2,3 & 5 | **90,102** | **84,950** | **88,233** | **80,503** |
| Remeasurement - amendments to the pension contribution schedule | 24 | (9,433) | - | (9,433) | - |
| **Total operating costs** | | **(145,703)** | **(135,609)** | **(138,884)** | **(110,089)** |
| **Operating surplus** | | **80,669** | **84,950** | **78,800** | **80,503** |
| Surplus on disposal of fixed assets | 6 | 23,640 | 13,448 | 22,010 | 12,735 |
| Surplus on disposal of fixed assets investments | 6 | 9,498 | 5,817 | 9,498 | 5,817 |
| Deficit on disposal of other investments | | (257) | - | (257) | - |
| Revaluation of investments | 35 | (593) | 1,554 | (593) | 620 |
| Share of operating surplus in joint ventures | 32 | 3,395 | 738 | - | - |
| Interest receivable | 7 | 3,215 | 3,752 | 3,383 | 2,721 |
| Interest and finance costs | 8 | (52,276) | (51,954) | (46,766) | (45,157) |
| Movement in fair value of financial instruments | 7 | 180 | 1,131 | 180 | 1,131 |
| Movement in revaluation of investment property | 12 | 480 | 1,066 | 480 | 1,136 |
| **Surplus before Tax** | | **67,951** | **60,502** | **66,735** | **59,506** |
| Taxation | 11 | (52) | (54) | (52) | (54) |
| **Surplus for the year** | | **67,899** | **60,448** | **66,683** | **59,452** |
| Adjusted surplus for the year (before remeasurement - amendments to the pension contribution schedule) | | 77,332 | 60,448 | 76,116 | 59,452 |
| Actuarial (loss) / gain on defined benefit pension scheme | 25 | 320 | (813) | 320 | (813) |
| Change in fair value of hedged financial instruments | 8 | (3,561) | (20,778) | (3,561) | (20,778) |
| Transfer from subsidiary undertaking | | - | - | - | 13,182 |
| **Total comprehensive income and expenditure for the year** | | **64,658** | **38,857** | **63,442** | **51,043** |

All amounts relate to continuing activities.

# Consolidated statement of financial position as at 31 March 2016



| Tangible fixed assets | Note | Group 2016 £'000 | Restated Group 2015 £'000 | Trust 2016 £'000 | Restated Trust 2015 £'000 |
|---|---|---|---|---|---|
| Housing properties | 12 | 2,729,221 | 2,705,164 | 2,550,016 | 2,540,866 |
| Other tangible fixed assets | 13 | 11,444 | 12,186 | 11,162 | 12,186 |
| | | - | - | - | - |
| **Total tangible fixed assets** | | **2,740,665** | **2,717,350** | **2,561,178** | **2,553,052** |
| **Investments** | | | | | |
| HomeBuy | 14 | 157,082 | 177,604 | 157,082 | 177,604 |
| Other investments | 15 | 82,037 | 31,147 | 77,049 | 26,147 |
| Investments in joint ventures | 32 | 8,162 | 5,916 | - | - |
| | | **2,987,946** | **2,932,017** | **2,795,309** | **2,756,803** |
| **Current assets** | | | | | |
| Stock | 16 | 29,628 | 18,028 | 27,284 | 16,384 |
| Debtors | | | | | |
| receivable within one year | 17 | 37,456 | 49,302 | 33,541 | 30,500 |
| receivable after one year | 17 | 740 | 5,810 | 12,940 | 20,160 |
| Cash and cash equivalents | | 182,283 | 121,072 | 171,252 | 120,685 |
| | | **250,107** | **194,212** | **245,017** | **187,729** |
| **Creditors: amounts falling due within one year** | 18 | **(152,061)** | **(103,865)** | **(151,431)** | **(101,693)** |
| **Net current assets** | | **98,046** | **90,347** | **93,586** | **86,036** |
| **Total assets less current liabilities** | | **3,085,992** | **3,022,364** | **2,888,895** | **2,842,839** |
| Creditors: amounts falling due after more than one year | 19 | 1,512,634 | 1,505,138 | 1,335,761 | 1,352,704 |
| Provision for liabilities | 25 | 47,704 | 56,046 | 38,458 | 38,717 |
| Pension liability | 24 | 2,416 | 2,600 | 2,416 | 2,600 |
| **Capital and reserves** | | | | | |
| Income and expenditure reserve | | 679,724 | 609,461 | 668,746 | 599,698 |
| Cash flow hedge reserve | | (24,351) | (20,790) | (24,351) | (20,790) |
| Restricted reserve | | 11,843 | 12,435 | 11,843 | 12,436 |
| Revaluation reserve | | 856,022 | 857,474 | 856,022 | 857,474 |
| **Total reserves** | | **1,523,238** | **1,458,580** | **1,512,260** | **1,448,818** |
| **Total funding** | | **3,085,992** | **3,022,364** | **2,888,895** | **2,842,839** |

The financial statements were approved and authorised for issue by the Board on 21 July 2016 and were signed on its behalf by:

Paula Kahn
**Chair**

Ian Johnson
**Executive Director, Finance**

Mary Keane
**Company Secretary**

# Consolidated statement of cash flows for year ending 31 March 2016

| **Consolidated statement of cash flows**<br>for period ending 31 March 2016 | March<br>2016<br>**£'000** | Restated<br>March<br>2015<br>**£'000** |
|---|---|---|
| **Cash flows from operating activities** | | |
| Surplus for the year | 67,899 | 60,448 |
| **Adjustment for:** | | |
| Surplus on disposal of fixed assets | (23,640) | (13,448) |
| Surplus on disposal of fixed asset investments | (9,498) | (5,817) |
| Surplus on disposal of other investments | 257 | - |
| Share of operating surplus in joint ventures | (3,395) | (738) |
| Interest receivable | (3,215) | (3,752) |
| Interest and financing costs | 52,276 | 51,954 |
| Movement in fair value of financial instruments | (180) | (1,131) |
| Movement in revaluation of investment property | (480) | (1,066) |
| Revaluation of investment | 593 | (1,554) |
| Tax charged | 52 | 54 |
| Depreciation | 15,798 | 15,356 |
| Amortised grant | (791) | (1,071) |
| Impairment | 141 | 1,697 |
| (Increase) / decrease in stock | (11,600) | (7,316) |
| (Increase) / decrease in trade and other receivables | 16,969 | 16,165 |
| Increase / (decrease) in trade payables | (2,441) | 6,512 |
| Contributions to (from) provisions | (8,342) | (11,201) |
| Increase / (decrease) in pension liability | (184) | (72) |
| **Cash generated from operations** | **90,219** | **105,020** |
| Tax paid | (84) | (597) |
| **Net cash from operating activities** | **90,135** | **104,423** |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | (112,441) | (121,848) |
| Proceeds from sale of property, plant and equipment | 46,055 | 30,752 |
| Purchase of other investments | (62,372) | - |
| Proceeds from the sale of other investments | 35,238 | 35,896 |
| Interest received | 3,215 | 3,752 |
| Dividend received | 3,325 | 686 |
| Amounts placed on deposit | - | (7,860) |
| Net capital grants received (repaid) | (5,540) | 13,116 |
| **Net cash from investing activities** | **(92,520)** | **(45,506)** |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | 174,912 | 51,000 |
| Repayment of borrowings | (59,018) | (77,048) |
| Capital element of finance lease payments | (21) | (20) |
| Interest paid | (52,228) | (51,904) |
| Interest element of finance lease payments | (48) | (50) |
| **Net cash used in financing activities** | **63,597** | **(78,022)** |
| **Net movement in cash and cash equivalents** | **61,212** | **(19,105)** |
| Cash and cash equivalents bought forward | 121,071 | 140,176 |
| **Cash and cash equivalents carried forward** | **182,283** | **121,071** |

# Consolidated statement of changes in equity for year ending 31 March 2016



| Group | Income and expenditure reserve £'000 | Financial instruments reserve £'000 | Restricted reserve £'000 | Revaluation reserve £'000 | Total reserves £'000 |
|---|---|---|---|---|---|
| **Balance at 1 April 2015** | **609,461** | **(20,790)** | **12,435** | **857,474** | **1,458,580** |
| Surplus for the year | 67,899 | - | - | - | 67,899 |
| Actuarial gain on pension scheme | 320 | - | - | - | 320 |
| Change in fair value of hedged financial instruments | - | (3,561) | - | - | (3,561) |
| Other comprehensive income for the year | 320 | (3,561) | - | - | (3,241) |
| **Reserves transfers:** | | | | | |
| Transfer from revaluation reserve to income and expenditure reserve | 1,452 | - | - | (1,452) | - |
| Transfer of restricted expenditure to income and expenditure reserve | 592 | - | (592) | - | - |
| **Balance at 31 March 2016** | **679,724** | **(24,351)** | **11,843** | **856,022** | **1,523,238** |

| Trust | Income and expenditure reserve £'000 | Financial instruments reserve £'000 | Restricted reserve £'000 | Revaluation reserve £'000 | Total reserves £'000 |
|---|---|---|---|---|---|
| **Balance at 1 April 2015** | **599,698** | **(20,790)** | **12,436** | **857,474** | **1,448,818** |
| Surplus for the year | 66,683 | - | - | - | 66,683 |
| Actuarial gain on pension scheme | 320 | - | - | - | 320 |
| Change in fair value of hedged financial instruments | - | (3,561) | - | - | (3,561) |
| Other comprehensive income for the year | 320 | (3,561) | - | - | (3,241) |
| **Reserves transfers:** | | | | | |
| Transfer from revaluation reserve to income and expenditure reserve | 1,452 | - | - | (1,452) | - |
| Transfer of restricted expenditure to income and expenditure reserve | 593 | - | (593) | - | - |
| **Balance at 31 March 2016** | **668,746** | **(24,351)** | **11,843** | **856,022** | **1,512,260** |

# Consolidated statement of changes in equity for year ending 31 March 2016

| Group | Income and expenditure reserve £'000 | Financial instruments reserve £'000 | Restricted reserve £'000 | Revaluation reserve £'000 | Total reserves £'000 |
|---|---|---|---|---|---|
| **Balance at 1 April 2014** | **550,924** | **(12)** | **11,691** | **857,120** | **1,419,723** |
| Surplus for the year | 60,448 | - | - | - | 60,448 |
| Actuarial gain on pension scheme | (813) | - | - | - | (813) |
| Change in fair value of hedged financial instruments | - | (20,778) | - | - | (20,778) |
| Other comprehensive income for the year | (813) | (20,778) | - | - | (21,591) |
| **Reserves transfers:** | | | | | |
| Transfer from revaluation reserve to income and expenditure reserve | (354) | - | - | 354 | - |
| Transfer of restricted expenditure to income and expenditure reserve | (744) | - | 744 | - | - |
| **Balance at 31 March 2015** | **609,461** | **(20,790)** | **12,435** | **857,474** | **1,458,580** |

| Trust | Income and expenditure reserve £'000 | Financial instruments reserve £'000 | Restricted reserve £'000 | Revaluation reserve £'000 | Total reserves £'000 |
|---|---|---|---|---|---|
| **Balance at 1 April 2014** | **540,667** | **(12)** | **-** | **857,120** | **1,397,775** |
| Surplus for the year | 59,452 | - | - | - | 59,452 |
| Actuarial gain on pension scheme | (813) | - | - | - | (813) |
| Transfer from subsidiary undertaking | 912 | - | 12,270 | - | 13,182 |
| Change in fair value of hedged financial instruments | - | (20,778) | - | - | (20,778) |
| Other comprehensive income for the year | 99 | (20,778) | 12,270 | - | (8,409) |
| **Reserves transfers:** | | | | | |
| Transfer from revaluation reserve to income and expenditure reserve | (354) | - | - | 354 | - |
| Transfer of restricted expenditure to income and expenditure reserve | (166) | - | 166 | - | - |
| **Balance at 31 March 2015** | **599,698** | **(20,790)** | **12,436** | **857,474** | **1,448,818** |

The notes on pages 43 to 91 form part of these financial statements.

# 1a. Accounting policies

## Basis of preparation

Metropolitan Housing Trust ('the Trust') is registered under the Co-operative and Community Benefit Societies Act 2014 (Registered Number 16337R) and is a registered provider of social housing with Homes and Communities Agency (Registered Number L0726). It is a public benefit entity.

These financial statements are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102), the Statement of Recommended Practice Accounting by registered social housing providers (Housing SORP 2014) and the Accounting Direction for private registered providers of social housing from April 2015.

This is the first year in which the financial statements have been prepared under FRS 102. Information on the impact of first-time adoption of FRS 102 is given in note 33 to the accounts.

The preparation of the financial statements requires the Group management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. The impact that potential variations in these judgments may have on the financial statements are explained in the accounting policies below.

### Going concern

*After making enquiries, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Board continues to adopt the going concern basis in preparing the Group financial statements.*

## Basis of consolidation

The consolidated financial statements include Metropolitan Housing Trust and its subsidiaries (together 'the Group'). Non-exchange transactions where there is a clear gift of control are accounted for as business combinations. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of the subsidiaries are included in the consolidated Statement of Comprehensive Income from the date of their formation or gift in to the Group. All intra-Group transactions, balances, surpluses and deficits are eliminated in full on consolidation.

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

The Group participates in a number of regeneration partnerships with other Registered Providers. These arrangements involve jointly controlled assets and the Group's share of those jointly controlled assets, any related liabilities and any income or expenditure in relation to those jointly controlled assets are included in the results of the Group, in proportion to its share in those assets.

The Group has entered into a number of contractual arrangements that are classed as jointly controlled entities. Jointly controlled entities are accounted for using the equity method, which reflects the Group's share of the profit or loss, other comprehensive income and equity of the jointly controlled entity.

## Operating segments

As we have publicly traded securities within the Group we are required to disclose information about our operating segments under IFRS 8. Segmental information is disclosed in note 2 and as part of the analysis of housing properties in note 12.

The segments reflect the nature of the Group's activities rather than geographical location. The Group Board does not regularly receive information disaggregated by geographical nature. This is appropriate based on the similarity of services provided, nature of risks, type of customer and nature of regulatory environment across all the locations in which the Group operates.

# 1b. Key judgements and estimates in the preparation of these accounts

Metropolitan has had to make certain key judgements about complex transactions or those involving uncertainty about future events whilst preparing these accounts. The key judgements made are shown below and the effect changes in those judgements might have on the comprehensive income statement.

## Useful economic life of fixed assets

The useful economic life of housing structure is estimated to be 125 years and therefore depreciated over that period. A 10% decrease in the life would result in an increased charge of £1.5m to the comprehensive income statement.

## Valuation of investment properties

Investment properties are valued on an annual basis. Metropolitan used an independent external valuer for opening balance sheet valuations of commercial and market rent properties. Commercial properties are revalued internally based on the lease agreements and market rental properties are revalued using the Office of National Statistics market rent index. A 1% movement in valuation would result in a £400k movement in the comprehensive income statement.

## Government grant

Government grant is amortised over the useful economic life of the asset as per SORP 2014. A 10% decrease in the life would result in increased income in the comprehensive income statement of £70k.

## Capitalised overhead on developments

Overheads are capitalised up to a maximum of 3.5% of works and acquisitions costs or 100% of development salaries and related overheads.

## Judgements used in the preparation of pension fund accounts

Pension figures in these accounts are prepared by independent actuaries. In preparing the figures the actuaries use a number of judgements based on information provided to them by the Institute and Faculty of Actuaries.

*Other areas where a degree of judgement has been applied are shown in italics in the accounts.*

# 2a. Particulars of turnover, cost of sales, operating costs and operating surplus

Turnover comprises rental and service charges income receivable (net of any voids), income from first tranche sales, sales of properties built for sale and other services at the invoiced value (net of VAT where recoverable), amortisation of deferred capital grants, and other grants receivable.

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting; income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale. Care and support income is recognised when the contract condition is fulfilled.

| Group | Turnover 2016 £'000 | Cost of sales 2016 £'000 | Operating costs 2016 £'000 | Operating surplus/ (deficit) 2016 £'000 | Restated operating surplus/ (deficit) 2015 £'000 |
|---|---|---|---|---|---|
| **Social housing activities** | | | | | |
| Income and expenditure from lettings - note 3 | 193,237 | - | 112,617 | **80,620** | **76,438** |
| **Other social housing activities** | | | | | |
| First tranche sales | 12,212 | 8,347 | 149 | **3,716** | **2,569** |
| Mortgage Rescue | 304 | - | 28 | **276** | **242** |
| Supporting People | 12,487 | - | 11,089 | **1,398** | **1,362** |
| Community investment | 516 | - | 897 | **(381)** | **(552)** |
| Other | 724 | - | - | **724** | **675** |
| Total other social housing activities | **26,243** | **8,347** | **12,163** | **5,733** | **4,296** |
| **Non-social housing activities** | | | | | |
| Development of properties for sale | 450 | 178 | 25 | **247** | **207** |
| Market renting | 4,479 | - | 849 | **3,630** | **2,609** |
| Registered care homes | 6,744 | - | 6,878 | **(134)** | **(269)** |
| Other | 3,744 | - | 3,738 | **6** | **1,669** |
| Total non-social housing activities | **15,417** | **178** | **11,490** | **3,749** | **4,216** |
| **Total** | **234,897** | **8,525** | **136,270** | **90,102** | **84,950** |
| Pension deficit re-measurement | - | - | 9,433 | **(9,433)** | - |
| **Adjusted total** | **234,897** | **8,525** | **145,703** | **80,669** | **84,950** |

| Trust | Turnover 2016 £'000 | Cost of sales 2016 £'000 | Operating costs 2016 £'000 | Operating surplus/ (deficit) 2016 £'000 | Restated operating surplus/ (deficit) 2015 £'000 |
|---|---|---|---|---|---|
| **Social housing activities** | | | | | |
| Income and expenditure from lettings - note 3 | 183,105 | - | 106,098 | **77,007** | **73,614** |
| **Other social housing activities** | | | | | |
| First tranche sales | 12,212 | 8,348 | 146 | **3,718** | **2,570** |
| Mortgage Rescue | 303 | - | 28 | **275** | **242** |
| Gift Aid | 3,310 | - | - | **3,310** | **473** |
| Supporting People | 12,487 | - | 11,089 | **1,398** | **352** |
| Community investment | 516 | - | 897 | **(381)** | **(552)** |
| Other | 724 | - | - | **724** | **565** |
| Total other social housing activities | **29,552** | **8,348** | **12,160** | **9,044** | **3,650** |
| **Non-social housing activities** | | | | | |
| Development of properties for sale | 320 | 59 | - | **261** | **253** |
| Market renting | 2,713 | - | 559 | **2,154** | **1,406** |
| Registered care homes | 6,744 | - | 6,878 | **(134)** | **(212)** |
| Other | 3,722 | 65 | 3,756 | **(99)** | **1,792** |
| Total non-social housing activities | **13,499** | **124** | **11,193** | **2,182** | **3,239** |
| **Adjusted operating surplus** | **226,156** | **8,472** | **129,451** | **88,233** | **80,503** |
| Pension deficit re-measurement | - | - | 9,433 | **(9,433)** | **-** |
| **Operating surplus** | **226,156** | **8,472** | **138,884** | **78,800** | **80,503** |

## 2b. Group management segmental analysis

| | Housing £'000 | Development £'000 | Care and Support £'000 | Central services £'000 | 2016 Total £'000 | 2015 Total £'000 |
|---|---|---|---|---|---|---|
| Turnover | 153,658 | 27,614 | 53,361 | 264 | **234,897** | **230,365** |
| Cost of sales | (89) | (8,436) | - | - | **(8,525)** | **(9,806)** |
| Operating costs | (57,684) | (19,250) | (35,969) | (23,367) | **(136,270)** | **(135,609)** |
| **Adjusted operating surplus** | **95,885** | **(72)** | **17,392** | **(23,103)** | **90,102** | **84,950** |
| Remeasurement - amendments to the pension contribution schedule | - | - | - | (9,433) | **(9,433)** | - |
| **Operating surplus** | **95,885** | **(72)** | **17,392** | **(32,536)** | **80,669** | **84,950** |

# 3. Particulars of income and expenditure from lettings

| Group | General needs housing 2016 £'000 | Supported housing 2016 £'000 | Other housing provision 2016 £'000 | LCHO 2016 £'000 | Total 2016 £'000 | Restated total 2015 £'000 |
|---|---|---|---|---|---|---|
| **Income from letting** | | | | | | |
| Rent receivable net of identifiable service charges | 124,661 | 25,760 | 1,073 | 17,329 | 168,823 | 161,733 |
| Charges for support services | - | - | - | - | - | 324 |
| Service charges receivable | 9,540 | 8,426 | 79 | 4,136 | 22,181 | 21,430 |
| **Net rental income** | **134,201** | **34,186** | **1,152** | **21,465** | **191,004** | **183,487** |
| Revenue grants from local authorities and other agencies | - | - | - | - | - | 16 |
| Amortised grant | 791 | - | - | - | 791 | 1,071 |
| Management fees | 199 | 1 | 5 | 1,237 | 1,442 | 1,264 |
| **Total income from lettings** | **135,191** | **34,187** | **1,157** | **22,702** | **193,237** | **185,838** |
| **Expenditure on letting activities** | | | | | | |
| Service charges cost | 14,978 | 8,503 | 389 | 3,624 | 27,494 | 23,365 |
| Management | 26,814 | 7,004 | 206 | 3,023 | 37,047 | 43,105 |
| Routine maintenance | 15,088 | 3,203 | 53 | 222 | 18,566 | 14,041 |
| Planned maintenance | 6,589 | 2,196 | 24 | 256 | 9,065 | 7,451 |
| Major repairs | 1,126 | 724 | 31 | 87 | 1,968 | 2,632 |
| Bad debts | 2,031 | (1,656) | 38 | (55) | 358 | 794 |
| Lease charges | 1,041 | 1,128 | - | 42 | 2,211 | 959 |
| Depreciation | 14,975 | - | - | - | 14,975 | 15,070 |
| Accelerated depreciation | 823 | - | - | - | 823 | 286 |
| Impairment | - | - | - | 110 | 110 | 1,697 |
| **Total expenditure** | **83,465** | **21,102** | **742** | **7,309** | **112,617** | **109,400** |
| **Surplus on social housing** | **51,726** | **13,085** | **416** | **15,393** | **80,620** | **76,438** |
| Rent loss through voids | (1,705) | (2,022) | (519) | (81) | (4,327) | (5,277) |

| Trust | General needs housing 2016 £'000 | Supported housing 2016 £'000 | Other housing provision 2016 £'000 | LCHO 2016 £'000 | Total 2016 £'000 | Restated total 2015 £'000 |
|---|---|---|---|---|---|---|
| **Income from letting** | | | | | | |
| Rent receivable net of identifiable service charges | 118,099 | 25,266 | 891 | 16,837 | 161,093 | 153,774 |
| Charges for support services | - | - | - | - | - | 5 |
| Service charges receivable | 8,372 | 8,169 | 75 | 3,787 | 20,403 | 20,030 |
| **Net rental income** | **126,471** | **33,435** | **966** | **20,624** | **181,496** | **173,809** |
| Revenue grants from local authorities and other agencies | - | - | - | - | - | 16 |
| Amortised grant | 329 | - | - | - | 329 | 608 |
| Management fees | 150 | - | 5 | 1,125 | 1,280 | 1,266 |
| **Total income from lettings** | **126,950** | **33,435** | **971** | **21,749** | **183,105** | **175,699** |
| **Expenditure on letting activities** | | | | | | |
| Service charges cost | 12,818 | 8,303 | 386 | 3,430 | 24,937 | 21,395 |
| Management | 25,725 | 7,025 | 176 | 2,949 | 35,875 | 41,158 |
| Routine maintenance | 14,971 | 3,097 | 46 | 209 | 18,323 | 13,563 |
| Planned maintenance | 6,155 | 2,135 | 22 | 229 | 8,541 | 7,142 |
| Major repairs | 946 | 718 | 31 | 85 | 1,780 | 2,266 |
| Bad debts | 1,979 | (1,646) | 17 | (62) | 288 | 666 |
| Lease charges | 944 | 1,128 | - | 42 | 2,114 | 457 |
| Depreciation | 13,367 | - | - | - | 13,367 | 13,455 |
| Accelerated depreciation | 763 | - | - | - | 763 | 286 |
| Impairment | - | - | - | 110 | 110 | 1,697 |
| **Total expenditure** | **77,668** | **20,760** | **678** | **6,992** | **106,098** | **102,085** |
| **Surplus on social housing** | **49,282** | **12,675** | **293** | **14,757** | **77,007** | **73,614** |
| Rent loss through voids | (1,201) | (1,967) | (378) | (80) | (3,626) | (5,277) |

# 4. Housing units

| | Group 2016 | Restated Group 2015 | Trust 2016 | Restated Trust 2015 |
|---|---|---|---|---|
| General needs rented housing | 22,803 | 23,210 | 21,588 | 21,873 |
| Supported housing | 5,664 | 5,683 | 5,571 | 5,590 |
| Shared ownership | 3,717 | 4,865 | 3,622 | 4,753 |
| Leaseholder units | 4,484 | 3,361 | 3,997 | 2,880 |
| Market renting | 642 | 767 | 408 | 465 |
| Other | 521 | 529 | 521 | 529 |
| **Total** | **37,831** | **38,415** | **35,707** | **36,090** |

A review of our housing system revealed that around 1,000 units were misclassified as shared ownership when they should have been classified as leaseholder units. This was corrected in the year.

# 5. Operating surplus

| **Operating surplus is stated after charging:** | Group 2016 **£'000** | Restated Group 2015 **£'000** | Trust 2016 **£'000** | Restated Trust 2015 **£'000** |
|---|---|---|---|---|
| Depreciation: | | | | |
| Tangible fixed assets - housing properties | 14,363 | 14,072 | 12,755 | 12,457 |
| Other fixed assets | 589 | 998 | 589 | 998 |
| Accelerated depreciation on component - tangible fixed assets | 823 | 286 | 763 | 286 |
| Impairment | 141 | 1,697 | 141 | 1,697 |
| Operating leases charges | | | | |
| Offices | 733 | 754 | 733 | 743 |
| Other buildings non-office | 1,349 | 959 | 1,349 | 457 |
| Leases non-buildings | 129 | 31 | 32 | 17 |
| Auditor's remuneration (excluding VAT): | | | | |
| Audit of these financial statements | 175 | 154 | 166 | 136 |
| In respect of other services | 119 | 37 | 119 | 37 |

# 6. Surpluses on disposal of fixed assets and fixed asset investments

| Surplus on disposal of fixed assets | Group 2016 £'000 | Group 2015 £'000 | Trust 2016 £'000 | Trust 2015 £'000 |
|---|---|---|---|---|
| Disposal proceeds | 150,005 | 30,752 | 145,999 | 28,739 |
| Cost of sales | (126,732) | (17,986) | (124,356) | (16,686) |
| Disposal proceeds fund | (459) | (600) | (459) | (600) |
| Grant abatement | 826 | 1,282 | 826 | 1,282 |
| | **23,640** | **13,448** | **22,010** | **12,735** |
| **Surplus on disposal of fixed asset investments** | | | | |
| HomeBuy redemption income | 30,020 | 23,180 | 30,020 | 23,180 |
| HomeBuy redemption expense | (20,522) | (17,363) | (20,522) | (17,363) |
| **Total** | **9,498** | **5,817** | **9,498** | **5,817** |

# 7. Interest receivable and other income

| | Group 2016 £'000 | Restated Group 2015 £'000 | Trust 2016 £'000 | Restated Trust 2015 £'000 |
|---|---|---|---|---|
| Bank interest | 312 | 217 | 276 | 183 |
| Bank deposits | 586 | 663 | 586 | 663 |
| Subsidiary companies | - | - | 651 | 243 |
| Regeneration partners | 651 | 886 | 651 | 886 |
| Interest income from financial assets | 794 | 717 | 347 | 320 |
| Investment income | 872 | 1,270 | 872 | 426 |
| | **3,215** | **3,752** | **3,383** | **2,721** |
| **Other income through I and E** | | | | |
| Gain on fair value of hedged derivative instruments | 188 | 1,202 | 188 | 1,202 |
| Loss on basis swap - derivative instruments | (8) | (71) | (8) | (71) |
| | **180** | **1,131** | **180** | **1,131** |

# 8. Interest and financing costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are recognised as a reduction in the proceeds of the associated capital instrument.

*Where a development project is financed by the borrowings of the Group finance costs are capitalised during the period of construction (see note 12).*

| | Group 2016 £'000 | Restated Group 2015 £'000 | Trust 2016 £'000 | Restated Trust 2015 £'000 |
|---|---|---|---|---|
| Interest on loans repayable | 56,441 | 54,195 | 50,139 | 47,271 |
| Net interest on pension fund | 254 | - | 254 | - |
| Interest on finance leases | 48 | 50 | 48 | 50 |
| Interest on recycled capital grant fund and disposal proceeds fund (notes 21 and 22) | 439 | 332 | 436 | 331 |
| Less: Interest capitalised | (4,906) | (2,622) | (4,111) | (2,494) |
| | **52,276** | **51,954** | **46,766** | **45,157** |

**Other financing costs through Other Comprehensive Income**

| | Group 2016 £'000 | Restated Group 2015 £'000 | Trust 2016 £'000 | Restated Trust 2015 £'000 |
|---|---|---|---|---|
| Loss on hedged derivative instrument | 3,561 | 20,778 | 3,561 | 20,778 |

# 9. Employees

Short-term employee benefits are recognised as an expense in the period in which they are incurred. The Group does not allow unused annual leave to be carried forward into the next reporting period so no accrual is required.

## Average monthly full-time equivalent number of employees

| | 2016 Number | 2015 Number |
|---|---|---|
| Senior Managers and Executives | 6 | 8 |
| Office staff | 774 | 709 |
| Scheme staff | 478 | 591 |
| In-house contractors | 63 | - |
| | **1,321** | **1,308** |

## Staff costs (for employees above)

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Wages and salaries | 43,256 | 37,929 |
| Social security costs | 3,762 | 3,260 |
| Pension costs | 2,631 | 1,067 |
| **Staff costs** | **49,649** | **42,256** |

## Number of staff paid over £60,000 in the year (excluding pension contributions)

| | 2016 Number | 2015 Number |
|---|---|---|
| £60,000 - £70,000 | 15 | 13 |
| £70,001 - £80,000 | 13 | 10 |
| £80,001 - £90,000 | 12 | 7 |
| £90,001 - £100,000 | 7 | 5 |
| £100,001 - £110,000 | 6 | 1 |
| £110,001 - £120,000 | 2 | - |
| £120,001 - £130,000 | 1 | - |
| £130,001 - £140,000 | 1 | - |
| £140,001 - £150,000 | - | 1 |
| £150,001 - £160,000 | - | 1 |
| £160,001 - £170,000 | 3 | - |
| £180,001 - £190,000 | - | 1 |
| £220,001 - £230,000 | - | 1 |
| £250,001 - £260,000 | 2 | - |
| | **62** | **40** |

# 10. Executive directors and board members

## Executive directors

The executive directors comprised six posts as outlined on page three of the report and financial statements. Metropolitan does not make any further contribution to an individual pension arrangement for the Chief Executive.

| | 2016<br>£ | 2015<br>£ |
|---|---|---|
| The aggregate emoluments payable to directors, including pension contributions, | 1,123,142 | 1,096,152 |
| Chief Executive, who was also the highest paid director, excluding pension contributions | 257,892 | 228,313 |

## Board members

The table below shows salaries paid to non-executive Board members, expenses incurred during the discharge of their duties and their attendance during the year:

| **Board member** | Attendance MHT Board | Attendance Other Committees and Boards | 2016 Salary £ | 2016 Expenses £ | 2015 Salary £ | 2015 Expenses £ |
|---|---|---|---|---|---|---|
| Christine Turner | 11 (92%) | 7 (88%) | 11,500 | 1,954 | 9,852 | 316 |
| Clive Deadman | 11 (92%) | 19 (90%) | 11,500 | 5,750 | 8,853 | 3,642 |
| Janet Dean | 12 (100%) | 8 (100%) | 11,500 | 4,097 | 9,852 | 3,640 |
| Jerry Piper | 12 (100%) | 15 (100%) | 10,500 | 66 | 9,353 | 333 |
| Michael Dunn | 10 (83%) | 27 (100%) | 11,500 | 3,775 | 9,353 | 1,350 |
| Mike Green | 12 (100%) | 13 (100%) | 11,500 | 1,168 | 9,852 | 912 |
| Paula Kahn (Chair) | 12 (100%) | 9 (100%) | 22,500 | 1,185 | 21,773 | 365 |
| Stuart Beevor | 12 (100%) | 17 (100%) | 13,750 | 483 | 10,977 | 405 |
| Waheed Saleem | 5 (83%) | 3 (75%) | 4,916 | 543 | 9,852 | 1,604 |
| | | | **109,166** | **19,021** | **99,717** | **12,567** |

## 11. Tax on surplus on ordinary activities

*The charge for taxation is based on the surplus for the year and takes into account taxation deferred. Deferred tax is provided for on differences between the treatment of certain items for accounting and taxation purposes. It is accounted for to the extent that a liability or asset is expected to be payable or recoverable in the foreseeable future.*

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

| | Group 2016 **£'000** | Group 2015 **£'000** | Trust 2016 **£'000** | Trust 2015 **£'000** |
|---|---|---|---|---|
| UK corporation tax | 52 | 54 | 52 | 54 |
| **Tax on surplus on ordinary activities** | **52** | **54** | **52** | **54** |

| **Reconciliation of current tax** | Group 2016 **£'000** | Restated Group 2015 **£'000** | Trust 2016 **£'000** | Restated Trust 2015 **£'000** |
|---|---|---|---|---|
| Surplus on ordinary activities before tax | 67,951 | 60,502 | 66,734 | 59,506 |
| Surplus on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015 - 21%) | 13,590 | 12,705 | 13,347 | 12,496 |
| Surplus covered by charitable exemption | (13,538) | (12,651) | (13,295) | (12,442) |
| **Current tax payable for the year** | **52** | **54** | **52** | **54** |

# 12. Fixed assets – Housing properties

## Housing properties

*Housing properties constructed or acquired (including land) on the open market since the date of transition to FRS 102 are stated at cost less depreciation and impairment (where applicable).*

*The cost of housing land and property represents their purchase price and any directly attributable costs of acquisition which may include an appropriate amount for staff costs and other costs of managing development.*

*Directly attributable costs of acquisition includes capitalised interest calculated, on a proportional basis, using the interest on borrowing which has been drawn in order to finance the relevant construction or acquisition. Where housing properties are in the course of construction, interest cost is only capitalised where construction is ongoing and has not been interrupted or terminated.*

## Depreciation of housing property

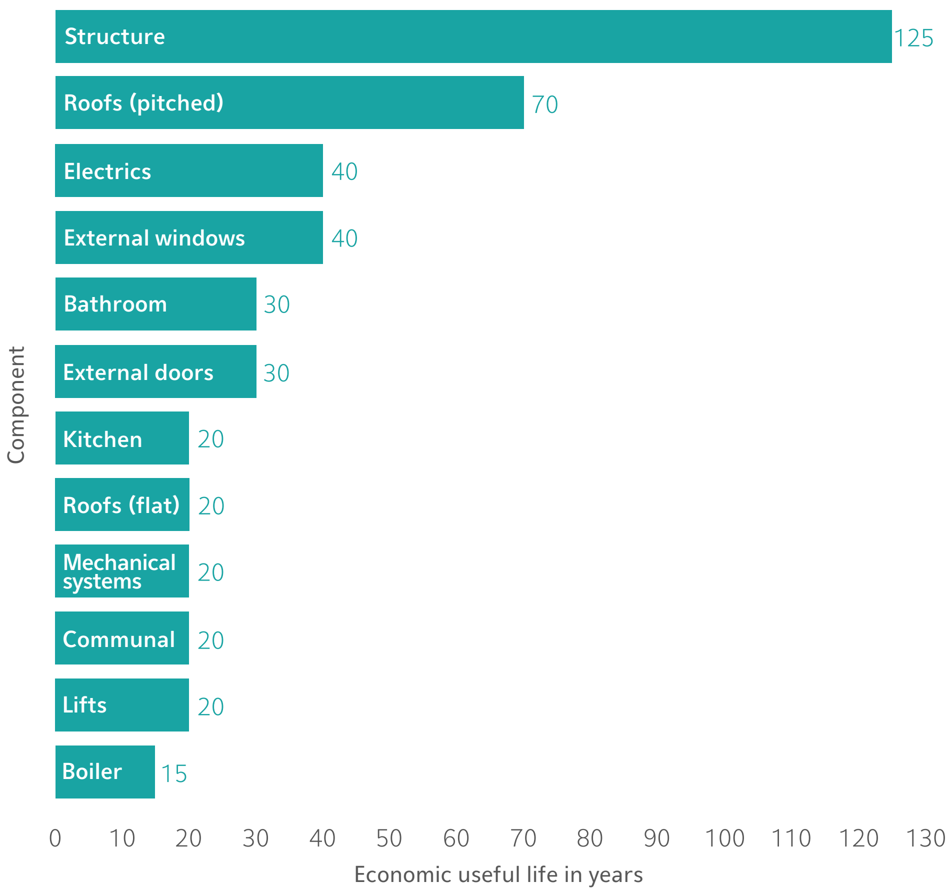
*Housing land and property is split between land, structure and other major components that are expected to require replacement over time. Freehold land is not depreciated on account of its indefinite useful economic life.*

The portion of shared ownership property retained or expected to be retained is not depreciated on account of the high residual value. Neither the depreciable amount nor the expected annual depreciation charge for such assets is considered material, individually or in aggregate.

Assets in the course of construction are not depreciated until they are completed and ready for use to ensure that they are depreciated only in periods in which economic benefits are expected to be consumed.

Housing properties are split between the structure and the major components which require periodic replacement. The costs of replacement or restoration of these components are capitalised and depreciated over the determined average useful economic life as follows:

## Graph of useful economic lives



*Leasehold properties are depreciated over the length of the lease except where the expected useful economic life of properties is shorter than the lease, when the lease and building elements are depreciated separately over their expected useful economic lives.*

*It is the Group's policy to maintain shared ownership accommodation it is responsible for in a continuous state of sound repair. Maintenance of other shared ownership properties is the responsibility of the shared owner. The Group considers that the lives of properties are so long and residual values based on current open market value are so high that any depreciation would be insignificant. Any impairment in the value of such properties is charged to the Statement of Comprehensive Income.*

Any difference between the historical annual depreciation charge and the annual depreciation charge on assets carried at deemed cost is transferred to the revaluation reserve for the asset concerned until that reserve is depleted.

## Allocation of costs for mixed tenure and shared ownership developments

*Costs are allocated to the appropriate tenure where it is possible to specify to which tenure the expense relates. Where it is not possible to relate costs to a specific tenure, costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme.*

## Infrastructure assets

Infrastructure assets are infrastructure for public services, such as roads and bridges. Such expenditure is capitalised within property, plant and equipment, and is depreciated over 30 years.

## Donated land and other assets

*Land and other assets donated by local authorities and other government sources are added to cost at the fair value of the land at the time of the donation. Where the land is not related to a specific development and is donated by a public body an amount equivalent to the increase in value between fair value and consideration paid is treated as a non-monetary grant and recognised in the Statement of Financial Position as a liability. Where the donation is from a non-public source the value of the donation is included as income.*

## Investment properties

Investment properties consist of commercial properties and other properties not held for social benefit or for use in the business. Investment properties are measured at cost on initial recognition and subsequently at fair value at the balance sheet date, with changes in fair value recognised in income and expenditure. Fair value is determined annually by appropriately qualified external valuers and is derived from current market rents and investment property yields for comparable properties, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided on investment properties.

*The Group engaged Jones Lang LaSalle Ltd (JLL) to determine fair value at 1 April 2014. For investment property at market rents JLL used MV-VT basis and for commercial property the commercial rent basis was used to determine the investment property fair value. Indexation was applied to determine the fair value for investment property at market rents for 31 March 2015 and 31 March 2016 and a further valuation took place for commercial properties as at 31 March 2015 and a review took place at 31 March 2016.*

## Government grant

Grants received in relation to assets that are presented at deemed cost at the date of transition have been accounted for using the performance model as required by Housing SORP 2014. In applying this model, such grant has been presented as if it were originally recognised as income within the Statement of Comprehensive Income in the year it was receivable and is therefore included within brought forward reserves.

*Grant received since the transition date in relation to newly acquired or existing housing properties is accounted for using the accrual model set out in FRS 102 and the Housing SORP 2014. As required by Housing SORP 2014, grant is carried as deferred income in the balance sheet and released to the income and expenditure account on a systematic basis over the useful economic lives of the asset for which it was received. In accordance with Housing SORP 2014 the useful economic life of the housing property structure has been selected.*

Where social housing grant (SHG) funded property is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets, any unamortised grant remaining within creditors is released and recognised as income within the income and expenditure account.

Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate once performance-related conditions have been met.

Grants due from government organisations or received in advance are included as current assets or liabilities.

## Deemed cost on transition to FRS 102

On transition to FRS 102 Metropolitan took the option of carrying out a one-off valuation on a number of its housing properties and using that amount as deemed cost. To determine the deemed cost at 1 April 2014, the Group engaged Jones Lang LaSalle Ltd (JLL) to value housing properties on an Existing Use Value for Social Housing (EUV-SH) basis. Housing properties will subsequently be measured at cost.

*Any difference between historical cost depreciation and depreciation calculated on deemed cost is transferred between the revaluation reserve and income and expenditure reserve.*

This valuation has been undertaken by JLL's Affordable Housing Division, a 30-strong team established for over 15 years and widely recognised as one of the leading teams of specialist valuers and property advisors in the social housing sector. They act for 120 Registered Providers, all existing lenders, lawyers and rating agencies in the sector (without exception), and have driven a high proportion of Statutory Accounts valuations (for commensurate "g15" and national organisations), Bond Issuances (and their revaluations) and a cross-section of land/consultancy projects.

The valuation was carried out as a desktop exercise on an EUV-SH basis using discounted cash flow. The property portfolio was grouped by a number of key parameters to determine the valuation including:

- Location
- Spread
- Usage categories
- Age
- Construction
- Property type
- Tenure type
- Rental streams less key deductions for expected maintenance and management costs

The resultant cash flow was calculated over 50 years with the net income in the final year capitalised into perpetuity with an assumption of 1% real rent increase per annum with a discount rate of 5.6% real.

The valuation apportioned rates between 75% and 85% as a land apportionment of the EUV-SH asset value with the overall average across stock being 82%.

The valuation has been based on current use, and ignores any change of use or any potential for future development. VAT and capital allowances have been excluded. It also assumes that:

1) There are no material rental or service charge arrears in connection with the tenants occupying the subject properties.
2) Floor areas obtained from the Valuation Office Agency (VOA), are correct and measured in accordance with the Royal Institution of Chartered Surveyors' (RICS) Code of Measuring Practice (6th Edition) and on a Net Internal Area basis.
3) Tenancy information provided by the Group as at 1 April 2014 and 31 March 2015 is correct.
4) There is no contamination of the properties or adjoining properties that would materially affect value.
5) Planning consents comply with their current use (no account has been taken of any potential change in use)
6) All properties:
    a) Are in good structural repair and condition and contain no deleterious materials and that the services function satisfactorily.
    b) Have mains water, gas and electricity and drain into public sewers.

## Impairment

The housing property portfolio for the Group is assessed for indicators of impairment at each balance sheet date. Where indicators are identified then a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. An option appraisal is carried out to determine the option which produces the highest net realisable value. Valuations on rental return or potential sale proceeds are obtained and used to inform the options. The Group looks at the net realisable value, under the options available, when considering the recoverable amount for the purposes of impairment assessment. The recoverable amount is taken to be the higher of the fair value less costs to sell or value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets or cash-generating units concerned or the present value of future cash flows to be derived from them, appropriately adjusted to account for any restrictions on their use. No properties have been valued at VIU (Value in Use) -SP.

*The Group defines cash generating units as schemes except where its schemes are not sufficiently large enough in size or where it is geographically sensible to group schemes into larger cash generating units. Where the recoverable amount of an asset or cash generating unit is lower than its carrying value an impairment is recorded through a charge to income and expenditure.*

*Central government announced in the July 2015 Budget a 1% reduction in social housing rents for the next four years. This announcement was a trigger which meant it was necessary to carry out an impairment review. The subsequent impairment review identified no evidence of a reduction in value of the Group's properties.*

Impairment brought forward at 1 April 2015 totalled £28.7m. Impairment charged in the year ended 31 March 2016 totalled £0.1m, relating to a review of carrying value on shared ownership properties. £3.1m of impairment was written back on disposal, bringing the balance at 31 March 2016 to £25.7m.

## Capitalised interest

Additions to housing properties in the course of construction during the year included capitalised interest of £4,906k (2015 – £2,622k). The weighted average cost of capital was 5.0% (2015 - 4.9%). The aggregate amount capitalised is £90.0m (2015 - £85.1m).

## Properties held for security

Metropolitan had property with a net book value of £1,930m pledged as security at 31 March 2016 (£1.762m – 2015).

## Freehold / leasehold

Metropolitan held long leasehold and freehold property, plant and equipment at the following net book value.

| | Group 2016 £'000 | Restated Group 2015 £'000 | Trust 2016 £'000 | Restated Trust 2015 £'000 |
|---|---|---|---|---|
| Long leasehold | 219,097 | 223,975 | 219,055 | 233,933 |
| Freehold | 2,510,124 | 2,481,189 | 2,330,961 | 2,306,933 |
| | **2,729,221** | **2,705,164** | **2,550,016** | **2,540,866** |

Metropolitan do not have any short leasehold Property, Plant and Equipment at the balance sheet date.

## Finance leases

The net carrying amount of assets held under finance leases included in plant and machinery is £661k (2015 - £682k).

There is one significant finance lease which is related to an agreement with EnviroEnergy to supply and install heating and heating equipment as part of the Nottingham district heating scheme. At the end of the lease term the risk and responsibility of the heating equipment will be transferred to the Group. The remaining lease term is 16 years as at the 31 March 2016.

## Group housing properties

| Group | Housing properties under construction Letting £'000 | Housing properties under construction Low cost home ownership £'000 | Completed housing properties Letting £'000 | Completed housing properties Low cost home ownership £'000 | Community properties £'000 | Properties, plant and equipment total £'000 | Investment properties £'000 | Property asset total £'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost / Value** | | | | | | | | |
| **At 1 April 2015** | 125,362 | 33,246 | 2,268,679 | 297,895 | 1,646 | 2,726,828 | 40,095 | 2,766,923 |
| Schemes completed in year | (53,482) | (13,420) | 53,482 | 13,420 | - | - | - | - |
| Transfer to current assets | (9,769) | - | - | (510) | - | (10,279) | - | (10,279) |
| Additions | 79,705 | 21,285 | 72,144 | 396 | - | 173,530 | - | 173,530 |
| Revaluations | - | - | - | - | - | - | 480 | 480 |
| Disposals | (1,595) | (2,039) | (111,377) | (20,195) | - | (135,206) | (93) | (135,299) |
| **At 31 March 2016** | **140,221** | **39,072** | **2,282,928** | **291,006** | **1,646** | **2,754,873** | **40,482** | **2,795,355** |
| **Depreciation** | | | | | | | | |
| **At 1 April 2015** | - | - | 33,046 | - | 30 | 33,076 | - | 33,076 |
| Charge for year | - | - | 14,353 | - | 10 | 14,363 | - | 14,363 |
| Eliminated in respect of disposals | - | - | (7,027) | - | - | (7,027) | - | (7,027) |
| **At 31 March 2016** | **-** | **-** | **40,371** | **-** | **40** | **40,411** | **-** | **40,411** |
| **Impairment** | | | | | | | | |
| **At 1 April 2015** | 26,235 | 1,932 | - | 516 | - | 28,683 | - | 28,683 |
| Impairment charged to income and expenditure | - | - | - | 141 | - | 141 | - | 141 |
| Reclassification | - | - | 484 | (484) | - | - | - | - |
| Released on disposals | (3,070) | - | - | (32) | - | (3,102) | - | (3,102) |
| **At 31 March 2016** | **23,165** | **1,932** | **484** | **141** | **-** | **25,723** | **-** | **25,723** |
| **Net book value** | | | | | | | | |
| **At 31 March 2016** | **117,056** | **37,140** | **2,242,073** | **290,865** | **1,606** | **2,688,739** | **40,482** | **2,729,221** |
| **At 1 April 2015** | 99,127 | 31,314 | 2,235,633 | 297,379 | 1,616 | 2,665,069 | 40,095 | 2,705,164 |
| Historical cost at 31 March 2015 | 130,174 | 33,245 | 2,101,881 | 297,414 | 1,244 | 2,563,958 | 41,943 | 2,605,901 |
| Historical cost at 31 March 2014 | 83,517 | 10,850 | 2,088,899 | 300,622 | 1,244 | 2,485,132 | 41,943 | 2,527,075 |

# Trust housing properties

| Trust | Housing properties under construction: Letting £'000 | Housing properties under construction: Low cost home ownership £'000 | Completed housing properties: Letting £'000 | Completed housing properties: Low cost home ownership £'000 | Properties, plant and equipment total £'000 | Investment properties £'000 | Property asset total £'000 |
|---|---|---|---|---|---|---|---|
| **Cost / Value** | | | | | | | |
| **At 1 April 2015** | 104,229 | 33,246 | 2,140,787 | 279,117 | 2,557,379 | 38,187 | 2,595,566 |
| Schemes completed in year | (36,608) | (13,420) | 36,608 | 13,420 | - | - | - |
| Transfer to current assets | (9,769) | | | (510) | (10,279) | - | (10,279) |
| Additions | 55,542 | 21,285 | 71,084 | 396 | 148,307 | - | 148,307 |
| Revaluations | - | - | - | - | - | 480 | 480 |
| Disposals | (1,059) | (2,039) | (105,358) | (18,014) | (126,470) | (93) | (126,563) |
| **At 31 March 2016** | **112,335** | **39,072** | **2,143,121** | **274,409** | **2,568,937** | **38,574** | **2,607,511** |
| **Depreciation** | | | | | | | |
| **At 1 April 2015** | - | - | 26,017 | - | 26,017 | - | 26,017 |
| Charge for year | - | - | 12,755 | - | 12,755 | - | 12,755 |
| Eliminated in respect of disposals | - | - | (6,999) | - | (6,999) | - | (6,999) |
| **At 31 March 2016** | **-** | **-** | **31,773** | **-** | **31,773** | **-** | **31,773** |
| **Impairment** | | | | | | | |
| **At 1 April 2015** | 26,235 | 1,932 | - | 516 | 28,683 | - | 28,683 |
| Impairment charged to income and expenditure | - | - | - | 141 | 141 | - | 141 |
| Reclassification | - | - | 484 | (484) | - | - | - |
| Released on disposals | (3,070) | - | - | (32) | (3,102) | - | (3,102) |
| **At 31 March 2016** | **23,165** | **1,932** | **484** | **141** | **25,722** | **-** | **25,722** |
| **Net book value** | | | | | | | |
| **At 31 March 2016** | **89,170** | **37,140** | **2,110,864** | **274,268** | **2,511,442** | **38,574** | **2,550,016** |
| At 1 April 2015 | 77,994 | 31,314 | 2,114,769 | 278,601 | 2,502,679 | 38,187 | 2,540,866 |

# 13. Other fixed assets

Depreciation is charged on a straight-line basis over the expected useful economic lives of the other fixed assets at the following annual rates:

| | |
|---|---|
| Office furniture and equipment | 20% - 33% on cost |
| Service equipment | 5% on cost |

*No depreciation is charged in the period of acquisition and depreciation is charged in the period of disposal.*

| Group | Offices £'000 | Furniture and equipment £'000 | Computer £'000 | Total £'000 |
|---|---|---|---|---|
| **Gross book value** | | | | |
| At 1 April 2015 | 15,083 | 1,991 | 8,441 | 25,515 |
| Additions | 1,561 | 478 | 1,737 | 3,776 |
| Disposals | (4,663) | (383) | (9) | (5,055) |
| **At 31 March 2016** | **11,981** | **2,086** | **10,169** | **24,236** |
| **Accumulated depreciation** | | | | |
| At 1 April 2015 | 4,257 | 1,858 | 7,214 | 13,329 |
| Depreciation charge | 153 | 213 | 223 | 589 |
| Disposals | (876) | (241) | (9) | (1,126) |
| **At 31 March 2016** | **3,534** | **1,830** | **7,428** | **12,792** |
| **Net book value** | | | | |
| **At 31 March 2016** | **8,447** | **256** | **2,741** | **11,444** |
| At 31 March 2015 | 10,826 | 133 | 1,227 | 12,186 |

| Trust | Offices £'000 | Furniture and equipment £'000 | Computer £'000 | Total £'000 |
|---|---|---|---|---|
| **Gross book value** | | | | |
| At 1 April 2015 | 15,083 | 1,991 | 8,441 | 25,515 |
| Additions | 1,561 | 478 | 1,455 | 3,494 |
| Disposals | (4,663) | (383) | (9) | (5,055) |
| **At 31 March 2016** | **11,981** | **2,086** | **9,887** | **23,954** |
| **Accumulated depreciation** | | | | |
| At 1 April 2015 | (4,257) | (1,858) | (7,214) | (13,329) |
| Depreciation charge | (153) | (213) | (223) | (589) |
| Disposals | 876 | 241 | 9 | 1,126 |
| **At 31 March 2016** | **(3,534)** | **(1,830)** | **(7,428)** | **(12,792)** |
| **Net book value** | | | | |
| **At 31 March 2016** | **8,447** | **256** | **2,459** | **11,162** |
| At 31 March 2015 | 10,826 | 133 | 1,227 | 12,186 |

## 14. HomeBuy loans

### HomeBuy
Under the HomeBuy scheme and the Key Worker Living Initiative, the Group received social housing grant (SHG) representing a percentage of the open market purchase price of a property in order to advance interest-free loans to a homebuyer.

### MyChoice HomeBuy
Under the MyChoice HomeBuy scheme, the Group has issued interest-bearing loans representing a percentage of the open market purchase price of the properties. Half of these loans are funded from the Group's own resources and the other half funded by SHG.

| | Group £'000 | Trust £'000 |
|---|---|---|
| Opening balance at 1 April | 177,604 | 177,604 |
| Redemption | (20,522) | (20,522) |
| **Balance at 31 March** | **157,082** | **157,082** |

## 15. Other investments

| | Group 2016 £'000 | Restated Group 2015 £'000 | Trust 2016 £'000 | Restated Trust 2015 £'000 |
|---|---|---|---|---|
| Bond securities | 3,947 | 5,519 | 3,947 | 5,519 |
| Bank deposits | 77,576 | 25,628 | 72,575 | 20,628 |
| Other investments | 514 | - | 514 | - |
| Subsidiary investment | - | - | 13 | - |
| | **82,037** | **31,147** | **77,049** | **26,147** |

## 16. Stock

Stock represents work in progress and completed properties, including housing properties developed for transfer to other registered providers; properties developed for outright sale; and shared ownership properties. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche.

*Stock is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs.*

Assessments are made of recoverability using the same criteria described in the housing properties impairment policy above.

| | Group 2016 £'000 | Restated Group 2015 £'000 | Trust 2016 £'000 | Restated Trust 2015 £'000 |
|---|---|---|---|---|
| Work in progress, low cost home ownership | 16,108 | 13,427 | 16,108 | 13,427 |
| Completed properties, low cost home ownership | 3,936 | 2,908 | 3,936 | 2,908 |
| Work in progress, outright sales developments | 2,344 | 1,499 | - | - |
| Completed properties, outright sales developments | - | 194 | - | 49 |
| Land held for sale | 7,240 | - | 7,240 | - |

The figures above include capitalised interest of £603k (2015: £558k).

## 17. Debtors

| | Group 2016 £'000 | Restated Group 2015 £'000 | Trust 2016 £'000 | Restated Trust 2015 £'000 |
|---|---|---|---|---|
| **Due within one year** | | | | |
| Rental debtors | 21,814 | 23,010 | 20,365 | 21,745 |
| *Less: bad debt impairment* | (9,977) | (9,971) | (9,158) | (8,944) |
| Net rental debtors | 11,837 | 13,039 | 11,207 | 12,801 |
| Amounts owed by partners in regeneration schemes | - | 3,139 | - | 3,139 |
| Amounts owed by subsidiary undertakings | - | - | 7,151 | - |
| Prepayment in respect of major repairs to housing properties | 13,493 | 22,875 | 4,385 | 5,685 |
| SHG receivable | 48 | - | 48 | - |
| Prepayments and accrued income | 3,764 | 2,928 | 3,557 | 2,836 |
| VAT debtor | 1,083 | 1,086 | 1,022 | 276 |
| Other debtors | 7,231 | 6,235 | 6,171 | 5,763 |
| | **37,456** | **49,302** | **33,541** | **30,500** |
| **Due after more than one year** | | | | |
| Intercompany loan | - | - | 12,200 | 14,350 |
| Long-term prepayment in respect of major repairs to housing properties | 681 | 5,746 | 681 | 5,746 |
| Other debtors | 59 | 64 | 59 | 64 |
| | **740** | **5,810** | **12,940** | **20,160** |

## 18. Creditors: Amounts falling due within one year

| | Group 2016 £'000 | Restated Group 2015 £'000 | Trust 2016 £'000 | Restated Trust 2015 £'000 |
|---|---|---|---|---|
| Debt (note 23) | 45,164 | 3,692 | 43,994 | 3,692 |
| Trade creditors | 6,281 | 2,695 | 5,717 | 2,675 |
| Due to subsidiary undertakings | - | - | 6,240 | 2,125 |
| Amounts owed in respect of housing properties | 6,744 | 12,939 | 6,117 | 10,802 |
| Amounts owed to subsidiary undertakings | 819 | - | 828 | - |
| Other taxation and social security | 1,156 | 948 | 1,156 | 948 |
| Other creditors | 15,720 | 22,966 | 17,650 | 24,332 |
| Obligations under finance leases | 23 | 21 | 23 | 21 |
| Corporation Tax | - | 54 | - | 54 |
| Accruals and deferred income | 50,060 | 44,044 | 44,110 | 41,036 |
| Recycled Capital Grant Fund (note 21) | 17,171 | 6,419 | 17,147 | 6,419 |
| Disposals Proceeds Fund (note 22) | 235 | 366 | 235 | 366 |
| Rent and service charge paid in advance | 8,688 | 9,721 | 8,214 | 9,223 |
| | **152,061** | **103,865** | **151,431** | **101,693** |

## 19. Creditors: Amounts falling due after one year

| | Group 2016 £'000 | Restated Group 2015 £'000 | Trust 2016 £'000 | Restated Trust 2015 £'000 |
|---|---|---|---|---|
| Debt (note 23) | 902,821 | 976,020 | 787,321 | 884,362 |
| Derivative financial instruments | 44,673 | 41,291 | 44,673 | 41,291 |
| Obligations under finance leases (note 23) | 638 | 661 | 638 | 661 |
| Amounts owed in respect of housing properties under development | 2,873 | 1,362 | 2,562 | 1,143 |
| Recycled Capital Grant Fund | 79,207 | 87,628 | 78,411 | 87,172 |
| Disposal Proceeds Fund | 2,159 | 2,541 | 2,159 | 2,541 |
| Corporate bond (note 23) | 146,800 | - | 146,800 | - |
| Deferred government grant | 333,463 | 395,635 | 273,197 | 335,534 |
| | **1,512,634** | **1,505,138** | **1,335,761** | **1,352,704** |

# 20. Deferred government grant

| | Group 2016 £'000 | Group 2015 £'000 | Trust 2016 £'000 | Trust 2015 £'000 |
|---|---|---|---|---|
| At 1 April | 395,635 | 395,402 | 335,534 | 327,930 |
| Movement in RCGF | 2,331 | 1,638 | 1,967 | 1,641 |
| Movement in DPF | (511) | 594 | (511) | 592 |
| Net SHG | 11,853 | (928) | 11,590 | (935) |
| Grant released on stock swap | (59,240) | - | (59,240) | - |
| Amortisation | (791) | (1,071) | (329) | (608) |
| Transfer from subsidiary undertakings | - | - | - | 6,914 |
| HomeBuy utilitised | (15,814) | - | (15,814) | - |
| **At 31 March (greater than one year)** | **333,463** | **395,635** | **273,197** | **335,534** |

# 21. Recycled capital grant fund

| | Group 2016 £'000 | Restated Group 2015 £'000 | Trust 2016 £'000 | Restated Trust 2015 £'000 |
|---|---|---|---|---|
| As at 1 April | 94,047 | 92,409 | 93,591 | 91,950 |
| Utilised on new build | (16,387) | (17,246) | (16,386) | (17,246) |
| Grants recycled upon relevant events: | | | | |
| HomeBuy | 15,815 | 12,545 | 15,815 | 12,528 |
| Recycled on disposal | 8,055 | 6,018 | 7,693 | 5,906 |
| Repaid to GLA | (5,576) | - | (5,576) | - |
| Interest accrued | 424 | 321 | 421 | 320 |
| Transfers to subsidiary undertakings | - | - | - | 133 |
| | **96,378** | **94,047** | **95,558** | **93,591** |
| RCGF creditor falling due in one year | 17,171 | 6,419 | 17,147 | 6,419 |
| RCGF creditor falling due after one year | 79,207 | 87,628 | 78,411 | 87,172 |
| | **96,378** | **94,047** | **95,558** | **93,591** |

We recognise and recycle the use of Recycled Capital Grant in accordance with guidance from Homes and Communities Agency and Greater London Authority.

## 22. Disposal proceeds fund

| | Group 2016 £'000 | Restated Group 2015 £'000 | Trust 2016 £'000 | Restated Trust 2015 £'000 |
|---|---|---|---|---|
| **Opening balance at 1 April** | 2,905 | 2,313 | 2,905 | 2,313 |
| Transferred to subsidiary undertakings | (1,260) | - | (1,260) | - |
| Adjustments | 275 | (17) | 275 | (19) |
| Net sales proceeds | 459 | 600 | 459 | 600 |
| Interest accrued | 15 | 11 | 15 | 11 |
| **Balance at 31 March** | **2,394** | **2,907** | **2,394** | **2,905** |
| | | | | |
| DPF creditor falling due in one year | 235 | 366 | 235 | 366 |
| DPF creditor falling due after one year | 2,159 | 2,541 | 2,159 | 2,539 |
| | **2,394** | **2,907** | **2,394** | **2,905** |

We recognise and recycle the use of Disposal Proceeds Fund in accordance with guidance from Homes and Communities Agency and Greater London Authority.

## 23. Debt analysis

| Loans | Group 2016 £'000 | Restated Group 2015 £'000 | Trust 2016 £'000 | Restated Trust 2015 £'000 |
|---|---|---|---|---|
| Within one year | 45,164 | 3,692 | 43,994 | 3,692 |
| Between one and two years | 24,243 | 52,622 | 21,913 | 43,808 |
| Between two and five years | 39,351 | 47,185 | 32,350 | 27,850 |
| In more than five years | 986,027 | 876,214 | 879,857 | 812,704 |
| | **1,094,785** | **979,713** | **978,115** | **888,054** |

### Security

Loans are secured by fixed charges on individual properties.

### Terms of repayment and interest rates

The debt is repayable in accordance with lender agreed profiles at fixed rates of interest ranging from 2% to 12% (2015: 3% to 12%)

The Group had undrawn loan facilities of £332m (2015: £209m).

Obligations under finance leases are disclosed in note 29.

# 24. Pensions

The Group participates in two funded schemes: the Social Housing Pension Scheme (SHPS) and The Nottinghamshire County Council Local Government Pension Scheme (Notts LGPS).

## The Pensions Trust Social Housing Pension Scheme (SHPS)

For SHPS, Metropolitan closed the multi-employer defined benefit pension scheme on 31 March 2015, and only operates a multi-employer defined contribution scheme from 1 April 2015. The scheme actuary has advised it is not possible to identify the share of underlying assets and liabilities belonging to the Group. The Group applies defined contribution accounting for the SHPS pension scheme by means of the Multi-employer Exemption.

At the time of preparing the accounts, the present value of provision for 31 March 2016 is not yet available, and the accounting information is based on the present value as at 29 February 2016 provided by the Pension Trust. The impact of the movement in the month of March 2016 is deemed immaterial, representing less than 0.2% of total Income and expenditure impact.

## The Nottinghamshire County Council Pension Fund (Notts LGPS)

The Notts LGPS is also a multi-employer defined benefit pension scheme, and is accounted for using Defined Benefits Accounting. Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit is presented separately from other net assets on the Statement of Financial Position.

Under Defined Benefits Accounting, the current service cost and costs from settlements and curtailments are charged against operating surplus. Past service costs are recognised in the current reporting period. Interest is calculated on the net defined benefit liability. Re-measurements are reported in other comprehensive income.

*Management's estimates relating to the defined benefit schemes are based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salaries variation in these assumptions may significantly impact the defined benefit obligation and annual expense as shown in this Note. These assumptions and calculations are prepared by an independent actuary.*

# 24a. The Pensions Trust Social Housing Pension Scheme (SHPS)

The company participates in the scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore the company is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

## Deficit contributions

| | | |
|---|---|---|
| **Tier 1** | From 1 April 2016 to 30 September 2020: | **£40.6m per annum** (payable monthly and increasing by 4.7% each year on 1 April) |
| **Tier 2** | From 1 April 2016 to 30 September 2023: | **£28.6m per annum** (payable monthly and increasing by 4.7% each year on 1 April) |
| **Tier 3** | From 1 April 2016 to 30 September 2026: | **£32.7m per annum** (payable monthly and increasing by 3.0% each year on 1 April) |
| **Tier 4** | From 1 April 2016 to 30 September 2026: | **£31.7m per annum** (payable monthly and increasing by 3.0% each year on 1 April) |

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions.

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement, the company recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

## Assumptions

| % per annum | 31 March 2016 | 31 March 2015 | 31 March 2014 |
|---|---|---|---|
| Rate of discount | 2.3 | 1.9 | 2.9 |

## Present value of provisions

| £'000 | 31 March 2016 | 31 March 2015 | 31 March 2014 |
|---|---|---|---|
| Present value of provision | 32,703 | 26,110 | 27,141 |

## Reconciliation of opening and closing provisions

| | 31 March 2016 £'000 |
|---|---|
| Provision as at 1 April | 26,110 |
| Unwinding of the discount factor (interest expense) | 472 |
| Deficit contribution paid | (3,009) |
| Remeasurements - impact of any change in assumptions | (303) |
| Remeasurements - amendments to the contribution schedule | 9,433 |
| **Provision as at 31 March** | **32,703** |

## Income and expenditure impact

| | 31 March 2016 £'000 |
|---|---|
| Interest expense | 472 |
| Remeasurements – impact of any change in assumptions | (303) |
| Remeasurements – amendments to the contribution schedule | 9,433 |

## Deficit contribution schedule

| Year ending (£'000) | 31 March 2016 | 31 March 2015 | 31 March 2014 |
|---|---|---|---|
| Year 1 | 3,915 | 3,009 | 2,888 |
| Year 2 | 4,142 | 3,135 | 3,009 |
| Year 3 | 4,306 | 3,267 | 3,135 |
| Year 4 | 4,476 | 3,405 | 3,267 |
| Year 5 | 3,990 | 3,549 | 3,405 |
| Year 6 | 3,203 | 2,905 | 3,549 |
| Year 7 | 3,317 | 2,212 | 2,905 |
| Year 8 | 2,902 | 2,298 | 2,212 |
| Year 9 | 2,239 | 1,746 | 2,298 |
| Year 10 | 2,306 | 1,152 | 1,746 |
| Year 11 | 1,383 | 1,187 | 1,152 |
| Year 12 | - | 611 | 1,187 |
| Year 13 | - | - | 611 |

The company must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the income and expenditure account i.e. the unwinding of the discount rate as finance cost in the period in which it arises. It is these contributions that have been used to derive the company's balance sheet liability.

# 24b. The Nottinghamshire County Council Pension Fund (Notts LGPS)

The Nottinghamshire County Council Pension Fund, which is administered by Nottinghamshire County Council, is a defined benefits scheme based on final pensionable salary, contributions being charged to the income and expenditure account over employees' working lives with the Trust. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation of the whole fund was at 31 March 2013.

## Assumptions

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| *Inflation assumption (RPI)* | *3.2%* | *3.2%* | *3.5%* |
| *Inflation assumption (CPI)* | *2.3%* | *2.4%* | *2.7%* |
| *Rate of increase of salaries* | *4.1%* | *4.2%* | *4.5%* |
| *Rate of increase in pensions in payment* | *2.3%* | *2.4%* | *2.7%* |
| *Discount rate* | *3.6%* | *3.3%* | *4.4%* |

## Net pension liability

| | 31 March 2016 **£'000** | 31 March 2015 **£'000** |
|---|---|---|
| Present value of defined benefit obligation | (8,651) | (9,081) |
| Fair value of fund assets (bid value) | 6,235 | 6,481 |
| **Net liability in balance sheet** | **(2,416)** | **(2,600)** |

## Impact on income and expenditure

| | 2016 **£'000** | 2015 **£'000** |
|---|---|---|
| Service cost | 101 | 90 |
| Net interest on the defined liability | 85 | 81 |
| Administration expenses | - | 1 |
| **Total** | **186** | **172** |

## Remeasurement in other comprehensive income

| | 2016 **£'000** | 2015 **£'000** |
|---|---|---|
| Return on fund assets in excess of interest | (261) | 290 |
| Change in financial assumptions | 581 | (1,103) |
| **Remeasurement of net assets / (defined liability)** | **320** | **(813)** |

## Reconciliation of opening and closing assets

| | 31 March 2016 £'000 | Restated 31 March 2015 £'000 |
|---|---|---|
| **Opening fair value of scheme assets** | 6,481 | 5,857 |
| Interest on assets | 211 | 257 |
| Return on assets less interest | (261) | 394 |
| Administration expenses | - | (1) |
| Contribution by employer including unfunded benefits | 50 | 140 |
| Contributions by scheme participants | 21 | 23 |
| Estimated total benefits paid (net of transfer in) | (267) | (189) |
| **Fair value of scheme assets at end of period** | **6,235** | **6,481** |

## Reconciliation of opening and closing obligations

| | 31 March 2016 £'000 | Restated 31 March 2015 £'000 |
|---|---|---|
| **Opening defined benefit obligation** | 9,081 | 7,716 |
| Service cost | 101 | 90 |
| Interest cost | 296 | 338 |
| Change in financial assumptions | (581) | 1,103 |
| Estimated funded benefits paid (net of transfers in) | (267) | (189) |
| Contributions by scheme participants | 21 | 23 |
| **Closing defined benefit obligation** | **8,651** | **9,081** |

## Projected pension expenses for year to 31 March 2017

| | 2017 £'000 |
|---|---|
| Service cost | 92 |
| Net interest on the defined liability (asset) | 86 |
| **Total loss (profit)** | **178** |
| Employer contributions | 49 |

## Sensitivity analysis

| | 2016 | 2016 | 2016 | 2015 | 2015 | 2015 |
|---|---|---|---|---|---|---|
| Adjustment to discount rate | +0.1% | 0.00% | -0.1% | 0.10% | 0.00% | -0.10% |
| Present value of defined benefit obligation £'000 | 8,500 | 8,651 | 8,804 | 7,583 | 7,716 | 7,852 |
| Projected service cost £'000 | 90 | 92 | 94 | 93 | 95 | 97 |
| Adjustment to long-term salary increase | +0.1% | 0.00% | -0.1% | 0.10% | 0.00% | -0.10% |
| Present value of defined benefit obligation | 8,665 | 8,651 | 8,637 | 7,731 | 7,716 | 7,701 |
| Projected service cost | 92 | 92 | 92 | 95 | 95 | 95 |
| Adjustment to pension increases and deferred revaluation | +0.1% | 0.00% | -0.1% | 0.10% | 0.00% | -0.10% |
| Present value of defined benefit obligation | 8,793 | 8,651 | 8,512 | 7,839 | 7,716 | 7,595 |
| Projected service cost | 94 | 92 | 90 | 97 | 95 | 93 |
| | **+1 Year** | **None** | **-1 Year** | **+1 year** | **None** | **-1 year** |
| Adjustment to mortality age rating assumption | 8,925 | 8,651 | 8,386 | 7,439 | 7,716 | 7,996 |
| Present value of defined benefit obligation £'000 | 94 | 92 | 90 | 92 | 95 | 99 |

# 25. Provision for liabilities

Where the effect of the time value of money is material the amount expected to be required to settle the obligation is recognised at the present value using a discount rate. The unwinding of the discount is recognised as finance cost in income and expenditure in the period it arises.

*The Group has recognised provisions for liabilities of uncertain timing or amounts including those for major repairs on stock transfers and leaseholders, overage for gap funding, and restructuring. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date.*

The major repairs provision relates to the transfer of the Ashmole Estate from the London Borough of Lambeth (Trust) and transfer of the Clapham Park Estate from London Borough of Lambeth to Clapham Park Homes Ltd (Group). These provisions are periodically reviewed and reassessed at the balance sheet date to reflect the fair value of the works to be completed.

The overage provision relates to the potential clawback of gap funding on the Lymington Fields scheme. This funding was provided by the Homes and Communities Agency as part of the London Wide Initiative, and the clawback provision within the funding agreement runs for 10 years until December 2019. The provision is held within the accounts of Metropolitan Living Limited.

| **Group** | SHPS obligation **£'000** | Major repairs - stock transfer **£'000** | Major repairs - leaseholder **£'000** | Re-structure provisions **£'000** | Overage provision **£'000** | Total **£'000** |
|---|---|---|---|---|---|---|
| Opening balance at 1 April 2015 | 26,110 | 28,622 | 792 | 384 | 138 | 56,046 |
| Additions | 9,433 | - | 20 | 120 | - | 9,573 |
| Amounts used | - | (15,242) | (310) | (302) | - | (15,854) |
| Unused amounts reversed | - | - | - | (15) | - | (15) |
| Unwind of discount | 472 | 794 | - | - | - | 1,266 |
| Deficit contribution | (3,009) | - | - | - | - | (3,009) |
| Remeasurement due to changes in assumptions | (303) | - | - | - | - | (303) |
| **Balance at 31 March 2016** | **32,703** | **14,174** | **502** | **187** | **138** | **47,704** |

| Trust | SHPS obligation £'000 | Major repairs - stock transfer £'000 | Major repairs - leaseholder £'000 | Re-structure provisions £'000 | Total £'000 |
|---|---|---|---|---|---|
| Opening balance at 1 April 2015 | 26,110 | 11,432 | 792 | 383 | 38,717 |
| Additions | 9,433 | - | 20 | 120 | 9,573 |
| Amounts used | - | (6,713) | (310) | (302) | (7,325) |
| Unused amounts reversed | - | - | - | (14) | (14) |
| Unwind of discount | 472 | 347 | - | - | 819 |
| Deficit contribution | (3,009) | - | - | - | (3,009) |
| Remeasurement due to changes in assumptions | (303) | - | - | - | (303) |
| **Balance at 31 March 2016** | **32,703** | **5,066** | **502** | **187** | **38,458** |

## 26. Share capital

| | 2016 number | Restated 2015 number |
|---|---|---|
| Opening balance | 31 | 38 |
| Shares issued | - | - |
| Shares cancelled | (1) | (7) |
| **Closing balance** | **30** | **31** |

The nominal value of a share is £1.

# 27. Capital commitments

| Group | PPE £'000 | Investment property £'000 | Inventory £'000 | 2016 £'000 | 2015 £'000 |
|---|---|---|---|---|---|
| Capital expenditure that has been contracted for | 97,091 | 1,029 | 34,025 | **132,145** | 130,129 |
| Capital expenditure that has been authorised by the Board but has not yet been contracted for | 174,732 | 1,015 | 45,655 | **221,401** | 89,558 |

| Trust | PPE £'000 | Investment property £'000 | Inventory £'000 | 2016 £'000 | 2015 £'000 |
|---|---|---|---|---|---|
| Capital expenditure that has been contracted for | 97,091 | 1,029 | 20,167 | **118,287** | 130,129 |
| Capital expenditure that has been authorised by the Board but has not yet been contracted for | 106,934 | 1,015 | 17,999 | **125,948** | 89,558 |

*The amount contracted for at 31 March 2016 will be funded from cash reserves, private finance loans, Social Housing Grant and the proceeds of sales. The Board expects the expenditure it has authorised to be fully financed in this way. Under regulations approved by the Board, appropriate officers and employees may authorise expenditure to certain levels, and such authorised expenditure is included above.*

# 28. Contingent assets liabilities

The Group receives grant from the Homes and Communities Agency and from the Greater London Authority, which is used to fund the acquisition and development of housing properties and their components. The Group has a future obligation to recycle such grant once the properties are disposed of. At 31 March 2016, the value of grant received in respect of these properties that had not been disposed of was £996m (2015 - £976m).

As the timing of any future disposal is uncertain, no provision has been recognised in the financial statements.

# 29. Leasing commitments

The future minimum lease payments are set out below.

The Group's future minimum finance lease payments are as follows:

| | Group 2016 £'000 | Restated Group 2015 £'000 | Trust 2016 £'000 | Restated Trust 2015 £'000 |
|---|---|---|---|---|
| Within one year | 23 | 21 | 23 | 21 |
| Between one and two years | 25 | 23 | 25 | 23 |
| Between two and five years | 85 | 79 | 85 | 79 |
| In more than five years | 528 | 559 | 528 | 559 |
| | **661** | **682** | **661** | **682** |

## Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Group. All other leases are classified as operating leases.

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on the accruals basis.

Where assets are financed by leasing agreements that give rights approximating to ownership they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments (or if lower the fair value of leased asset) and is depreciated in accordance with the Group's normal policy for that class of assets.

The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability.

The Group's future minimum operating lease payments are as follows:

| | 2016 Land and buildings £'000 | Other £'000 | Restated 2015 Land and buildings £'000 | Other £'000 |
|---|---|---|---|---|
| Less than 1 year | 623 | 52 | 578 | 80 |
| 2 to 5 years | 2,152 | 323 | 1,614 | 70 |
| More than 5 years | 1,586 | - | 1,313 | - |
| | **4,361** | **375** | **3,505** | **150** |

## 30. Related parties

During the year Metropolitan conducted arm's-length transactions with subsidiaries of St. Modwen plc related to the reimbursement of £301,827 of tenant property expenses at Edmonton Green. Michael Dunn was an Executive Director of St. Modwen plc until 31 May 2015 and is also a Non-Executive Director of Metropolitan.

MHT provides central management services to its subsidiaries. Charges are allocated as follows:

| Department | Allocation basis |
|---|---|
| Facilities | Headcount |
| Health and safety | Headcount |
| Finance | Turnover |
| Information technology | Number of computers |
| Human resources | Headcount |
| Procurement | Turnover |
| Communications | Turnover |
| Board | Turnover |
| Executive Team | Turnover |

The quantum of the 2016 charges applied for these services to private subsidiaries is as follows:

| | 2016<br>**£'000** | 2015<br>**£'000** |
|---|---|---|
| EMPS (Metworks) | 19 | - |

MHT has joint regeneration partnerships with the following partners, and the relevant share of ownership is included in the statements:

| Joint regeneration partnership | Partners | MHP share % |
|---|---|---|
| Roundshaw (until 31 July 2015) | The Hyde Group | 50% |
| Canalside | One Housing Group | 50% |
| St Martin's | Amicus Horizon Ltd<br>Notting Hill Housing Trust | 40.34% |

MHT provides central management service to its regeneration partnerships, on the same allocation basis as it provides to subsidiaries. The amount of charges to each partnership is as follows:

| | 2016<br>£'000 | Restated<br>2015<br>£'000 |
|---|---|---|
| Roundshaw | 53 | 160 |
| Canalside | 184 | 184 |
| St Martins | 228 | 228 |
| **Total** | **465** | **572** |

Metropolitan Living Limited (MLL) has a Limited Liability Partnership with house builder Barratt Homes in Barratt Metropolitan LLP (BMM) to develop the West Hendon site in London. The balance of investment in BMM as at 31 March 2016 is disclosed in note 32. During the year, MHT acquired 3 properties for letting from BMM at a cost of £0.3m. MHT acquired 7 properties for sale from BMM at a cost of £2.0m.

MLL also has a Limited Liability Partnership with house builder Westleigh Development Ltd in Westleigh Cherrybank LLP (WCB) to develop the Monks Road scheme near Lincoln. The balance of investment in WCB as at 31 March 2016 is disclosed in note 32.

Rents received from tenant and leaseholder board members across the Group during the year are: £20,349 (2015 - £29,922). Rent arrears of the Group's tenant and leaseholder board members as at 31 March 2016 is less than £1,000. The rent arrear balance is subject to the same bad debt provision and debt recovery process as all other rent arrears.

Aggregate emoluments paid to key management personnel of the Group are disclosed in note 10.

During the year, £3,009k was paid as contributions towards the pension deficits of the SHPS and LGPS Pension Schemes; further details of these schemes are included in note 24.

# 31. Financial instruments

## Debtors and creditors
Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses. Trade debtors are recognised with the revenue, other debtors are recognised when they become receivable. Creditors are recognised when payment becomes probable.

## Loans, investments and short-term deposits
All loans, investments and short-term deposits held by the Group, with the exception of the lender's option borrower's option loan and cancellable embedded option arrangements detailed below, are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the Group has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instrument are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

## Lender's option borrower's option loan, (LOBO) and cancellable embedded options (CEO)
These financial instruments contain embedded derivative optionality. In the case of our LOBO these derivatives are held by both our lender and by us. This makes them more complex instruments and they cannot be defined as "basic" under FRS 102. As a result their measurement is determined by Section 12 of FRS 102. In determining the appropriate accounting treatment for these instruments we have assumed that the Regulations referred to in 12.8c, which are the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, are applicable to Metropolitan Housing Trust. Reference to these Regulations determines that the instruments should be measured at amortised cost. As stated previously the Group's accounting policy for financial instruments measured at amortised cost is that they are stated on the balance sheet at historical cost because the difference between historical cost and amortised cost is deemed to be immaterial. *The application of these Regulations is a subjective viewpoint and the Group is aware that this conclusion may be changed by future amendments to FRS 102*.

An embedded interest rate derivative is considered clearly and closely related to the host contract (and does not need to be accounted for separately) unless certain conditions are present. The Group has analysed the terms of all its LOBO and CEO arrangements and has determined that these conditions are not present. As a result of this analysis these derivatives are not measured separately but as part of the host loans at historical cost.

## Cash and cash equivalents
Cash and cash equivalents in the Group's Consolidated Statement of Financial Position consists of cash at bank, in hand, deposits and short-term investments with an original maturity of three months or less.

The Group has also identified some investments, which meet the definition of cash and cash equivalents but are restricted in their use; these investments have been classified as restricted cash equivalents.

## Derivative instruments and hedge accounting
The Group holds floating rate loans which expose the Group to interest rate risk; to mitigate against this risk the Group uses interest rate swaps. These instruments are measured at fair value at each reporting date. They are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group has designated each of the swaps against either existing drawn floating rate debt or against highly probable future floating rate debt. To the extent the hedge is effective, movements in fair value adjustments, other than adjustments for own or counter party credit risk, are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any movements in fair value relating to ineffectiveness and adjustments for our own or counter party credit risk are recognised in income and expenditure.

## Concessionary loans

Concessionary loans are those loans made or received by the Group that are made:

- To further its public benefit objectives
- At a rate of interest which is below the prevailing market rate of interest
- Not to be repayable on demand.

Loans made under HomeBuy are concessionary loans. These loans are measured at the amount advanced at the inception of the loan less amounts received and any provisions for impairment. Any associated grant is recognised as deferred income until the loan is redeemed.

## Cash flow hedge (derivative financial instruments)

MHT uses interest rate swaps to reduce exposure to interest rate risk on its debt portfolio. These hedges comprise swaps with a notional value of £189m at 31 March 2016 (2015: £159m) with interest rates ranging between 2.16% and 5.7% (2015: 2.16% and 5.7%) and maturities between 2 and 32 years (2015: 3 and 33 years).

The swaps represent a liability owing to the counterparty if they were to be closed out at their fair value. The fair value of this liability as at 31 March 2016 was £44.7m (2015: £41.3m). This liability is secured with property charged to the counterparty or with cash deposits. As at 31 March 2016 the Group had £11.7m (2015: £9.3m) in cash lodged to cover this liability with the remaining balance being covered by credit limits or property pledged.

Any future change in the LIBOR and RPI forward swap curves will result in a change to the fair value of our derivative financial instruments. An adverse movement in the forward swap curves will result in an increase to the current level of liability. An adverse move would also lead to further cash or property being required to be pledged with the derivative counterparties.

The fair values of all of Metropolitan's standalone swaps are shown on the balance sheet at their mid-market Mark to Market ("MTM") value (the 'mid-market' value is considered to be a close proxy for the 'bid' or 'offer' value, as appropriate, which are necessarily more subjective). All curves and market data used in the valuations are sourced from Bloomberg and applied in determining the fair value for each class of derivative instrument as follows:

- Interest rate swaps have been valued using the 3 Month LIBOR or 6 Month LIBOR swap curve, adjusted for LIBOR basis spreads where appropriate. Discounting is on a 6 month LIBOR swap curve basis
- Basis swaps have been valued using the appropriate basis swap spread curve. Discounting is on a 6 month LIBOR swap curve basis
- LPI Swaps have been valued using the RPI swap curve and LPI option prices, and the 3 Month LIBOR swap curve. Discounting is on a 6 month LIBOR swap curve basis

## Restricted cash and cash equivalents

As at 31 March 2016, £21.3m (2015 - £54.8m) of cash is classified as restricted cash and cash equivalents due to legal restrictions.

## Significant judgements

*Metropolitan's view is that all of our loans are basic. We have reached this conclusion based on a detailed review of all relevant loan documentation.*

## Financial instruments

| | Group 2016 £'000 | Group 2015 £'000 | Trust 2016 £'000 | Trust 2015 £'000 |
|---|---|---|---|---|
| Financial assets measured at historical cost: | | | | |
| Trade receivable | 11,837 | 13,039 | 11,207 | 12,801 |
| Other receivables | 25,565 | 42,074 | 34,927 | 37,859 |
| Investments | 82,037 | 31,147 | 77,049 | 26,147 |
| Cash and cash equivalents | 182,283 | 121,071 | 171,252 | 120,685 |
| Financial assets that are equity instruments measured at cost less impairment: | | | | |
| Concessionary loans receivable | 191,808 | 177,603 | 191,808 | 177,604 |
| | **493,530** | **384,934** | **486,243** | **375,096** |
| Financial liabilities measured at fair value through profit and loss: | | | | |
| Derivative financial instruments | 44,673 | 41,291 | 44,673 | 41,291 |
| Financial liabilities measured at historical cost: | | | | |
| Loans | 1,094,785 | 979,712 | 978,115 | 888,054 |
| Trade creditors | 3,159 | 2,695 | 2,595 | 2,675 |
| Other creditors | 556,166 | 588,336 | 495,897 | 521,716 |
| Financial leases | 638 | 661 | 638 | 661 |
| | **1,699,421** | **1,612,695** | **1,521,918** | **1,454,397** |

## 32. Joint ventures and subsidiaries

The ultimate parent undertaking within the Metropolitan Group is Metropolitan Housing Trust Limited. The following managed undertakings are subsidiaries by virtue of either ownership of their share capital or the ability of the Trust to control the composition of their Board.

| Name of undertaking | Shares held | Registered in | Principal activity |
|---|---|---|---|
| Clapham Park Homes Limited | Limited by guarantee | England | Registered provider of social housing |
| Clapham Park Development Limited | Limited by shares | England | Developments for outright sale |
| Metropolitan Funding Plc | 100% | England | Financing vehicle |
| Metropolitan Home Ownership Limited | Limited by shares | England | Dormant |
| EM Property Services Limited | 100% | England | Dormant |
| Longsdale Limited | Limited by guarantee | England | Property holding |
| Metropolitan Living Limited | 100% | England | Property development |
| Spiritagen Limited | 100% | England | Dormant |

Metropolitan Living Limited participates in two active joint ventures to carry out development projects.

| Joint ventures | Partner | Interest | Voting rights |
|---|---|---|---|
| Barratt Metropolitan LLP ('BMM') | Barratt | 25% | 50% |
| Westleigh Cherrybank LLP ('WCB') | Westleigh | 50% | 50% |

| | BMM 2016 £'000 | WCB 2016 £'000 | Total 2016 £'000 | BMM 2015 £'000 | WCB 2015 £'000 | Total 2015 £'000 |
|---|---|---|---|---|---|---|
| Investment at 1 April | 5,104 | 812 | 5,916 | 1,218 | 807 | 2,025 |
| Additions | 2,176 | - | 2,176 | 3,839 | - | 3,839 |
| Share of profits | 3,386 | 9 | 3,395 | 733 | 5 | 738 |
| Dividends | (3,325) | - | (3,325) | (686) | - | (686) |
| **As at 31 March** | **7,341** | **821** | **8,162** | **5,104** | **812** | **5,916** |

# 33. Prior year adjustments

## Transition to FRS 102

### a) Deemed cost valuation

Section 35 of FRS 102 allows first-time adopters to elect to measure property plant and equipment (PPE), at its fair value at the date of transition and use that fair value as its deemed cost at that date.

Section 17 of FRS 102 states that any gain in revaluation must be recognised within comprehensive income and the revaluation reserves; any losses must be offset by any gains recognised in the revaluation reserve and then must be recognised within surplus/deficit before taxation.

Adoption of the deemed cost option has resulted in a net increase in fixed assets at 1 April 2014 of £268m with £834m of revaluation gains credited to revaluation reserve and a charge to income and expenditure reserves of £566m. Consequently, restatement of depreciation for the year ending 31 March 2015 has increased by £2.6m offset by amortised grant of £1.0m.

### b) Investment property

Section 16 of FRS 102 requires property that was previously held as housing properties but meets the definition of an investment property prescribed in 16.2 and 16.3 to be separately disclosed and subsequently measured at fair value with any gains and losses recognised through the income and expenditure statement with no depreciation charge.

This has the effect of moving property with a value of £41.9m re-valued down to £38.8m into the investment property category at 1 April 2014 and the restatement of 2014/15 in a fair value increase of £1.1m recognised in the comprehensive income and expenditure statement.

### c) Government grants

Social Housing Grant can no longer be offset against housing property within fixed assets; under section 24 of FRS 102, where properties are held at deemed cost, the related social housing grant will be recognised initially under the performance model with subsequent grants measured using the ‘accrual model’ with the grant amortised over the life of the structure and components of the property.

Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate once performance-related conditions have been met. Grants due from government organisations or received in advance are included as current assets or liabilities.

The effect on the 1 April 2014 balance sheet is the movement of £979m social housing grant (relating to assets where the deemed cost option has been applied) to reserves and £241m (relating to assets held at historic cost) to long-term creditors. In addition, £154m of grant relating to HomeBuy, previously shown within investments has been reclassified to long-term creditors. Movements to the long-term creditor grants during 2014/5 are shown in note 20.

### d) Cash and cash equivalents

Section 7 requires cash and cash equivalents in the Group’s consolidated balance sheet to consist of cash at bank, in hand, deposits and short-term investments with an original maturity of three months or less. The effect of this is the 1 April 2014 opening cash holdings decrease by £8m and in 2014/15 the cash and cash equivalents decrease by £19m.

### e) Financial instruments

Section 11 requires basic financial instruments to be measured at amortised cost. For the 1 April 2014 balance sheet, the amortised measurement reduced long-term debtors by £1,583k with an equalling reduction in provisions by £1,583k.

For the 31 March 2015 balance sheet, long-term debtors increased by £1,270k with an increase in provision by £1,270k. For the year ending 31 March 2015, interest receivable increased by £1,270k and interest payable also increased by £1,270k.

Section 12 requires derivative instruments to be measured at fair value with any gains or losses going through surplus and deficit. Section 12 also allows for any change in fair value of hedged financial instruments to be recognised within other comprehensive income.

For the 1 April 2014 opening balance sheet, the fair value adjustment increased long-term creditors by £21.6m, subsequently reducing reserves by £21.6m. For the 31 March 2015 balance sheet, the fair value adjustment increased long-term creditors by £19.7m. £1.1m was recognised as income within surplus and deficit as this is related to the ineffectiveness of the hedged instrument and a credit risk adjustment, a further £20.8m is recognised within other comprehensive income relating to the change in fair value of hedged derivative instruments.

### f) SHPS pension scheme

Under section 28 the Group is now required to recognise the net present value of any contractual agreements to make additional payments for a past deficit. This has resulted in a liability of £27.1m recognised within provisions at 1 April 2014. The adjustment made in the year ending 31 March 2015 and closing balance sheet position is shown in note 25.

## MyChoice HomeBuy (prior year adjustment)

The Association has offered subsidised loans to customers to purchase properties through the MyChoice HomeBuy scheme, which was set up in 2008. The loans were primarily funded by Social Housing Grant. The Association was a member of a consortium of eight housing associations, all of which operated MyChoice HomeBuy in a similar manner. Under the terms of the Consumer Credit Act 1974 the Association corresponds with those borrowing and provides a suite of notices and statements which are required to be in a form specified in the Consumer Credit (Information Requirements and Duration of Licences and Charges) Regulations 2007.

In the event that the notices and statements are not substantially in the prescribed form, amongst other effects, any interest payable on a customer's account is no longer payable for as long as the notices and statements are non-compliant. During the year the consortium were advised that these notices and statements had not been compliant and accordingly that interest had not been validly charged in previous periods. Customers affected have been advised and the non-compliance has been rectified with effect from 30 November 2015. Refunds of interest have been made to customers from whom this has been incorrectly collected and as this was a correction of a fundamental error relating to prior periods the impact has been recognised as a prior year adjustment.

The total cost of the interest incorrectly collected was £10.8m. The retained reserves at 31 March 2014 have been restated by £7.8m and the surplus for the year to 31 March 2015 has been reduced by £1.9m. The £1.2m balance of the interest refund relates to the current year. With effect from 30 November 2015 when the non-compliance was rectified, the association has resumed charging interest.

## Summary of changes due to adoption of FRS 102 - Group

| **Restated consolidated statement of financial position** | 2015 **£'000** | 2014 **£'000** |
|---|---|---|
| Original reserves | 289,786 | 228,559 |
| SHPS pension | (26,110) | (27,132) |
| Financial instruments at fair value | (41,291) | (21,644) |
| Investment properties at fair value | (2,046) | (3,112) |
| Deemed cost | 1,247,852 | 1,250,806 |
| **Restated reserves after FRS 102 PYA** | **1,468,191** | **1,427,477** |
| | | |
| Other PYA - MyChoice HomeBuy | (9,611) | (7,754) |
| **Restated reserves** | **1,458,580** | **1,419,723** |

| **Restated total comprehensive income for the year ended 31 March 2015** | | 2014/15 **£'000** |
|---|---|---|
| Total recognised supluses and deficits per UK GAAP | | 61,227 |
| Movement in financial instruments at fair value | 1,131 | |
| Movement in investment properties at fair value | 1,066 | |
| Movement in SHPS pension provision | 1,022 | |
| Additional depreciation/amortised grant on re-valued fixed assets | (1,573) | |
| Deemed cost adjustment | (1,381) | |
| Total adjustment to surplus for the year | | 265 |
| | | |
| Movement in fair value of hedged financial instruments | | (20,778) |
| **Restated total comprehensive income after FRS 102 PYA** | | **40,714** |
| | | |
| MyChoice HomeBuy | | (1,857) |
| **Restated total comprehensive income** | | **38,857** |

## Summary of changes due to adoption of FRS 102 - Trust

| Restated consolidated statement of financial position | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Original reserves | 260,334 | 188,512 |
| SHPS pension | (26,110) | (27,132) |
| Financial instruments at fair value | (41,291) | (21,644) |
| Investment properties at fair value | (2,998) | (4,134) |
| Deemed cost | 1,268,494 | 1,269,927 |
| **Restated reserves** | **1,458,429** | **1,405,529** |
| | | |
| Other PYA - MyChoice HomeBuy | (9,611) | (7,754) |
| **Restated reserves** | **1,448,818** | **1,397,775** |

| Restated total comprehensive income for the year ended 31 March 2015 | | 2014/15 £'000 |
|---|---|---|
| Total recognised supluses and deficits per UK GAAP | | 71,822 |
| Movement in financial instruments at fair value | 1,131 | |
| Movement in investment properties at fair value | 1,136 | |
| Movement in SHPS pension provision | 1,022 | |
| Additional depreciation/amortised grant on re-valued fixed assets | (2,043) | |
| Deemed cost adjustment | 610 | |
| Total adjustment to surplus for the year | | 1,856 |
| | | |
| Movement in fair value of hedged financial instruments | | (20,778) |
| **Restated total comprehensive income after FRS 102 PYA** | | **52,900** |
| | | |
| MyChoice HomeBuy | | (1,857) |
| **Restated total comprehensive income** | | **51,043** |

## 34. Post balance sheet events

On 23 June 2016 the UK voted in a referendum to leave the European Union. This decision is likely to impact housing associations. In the short term, financial markets have been hit which will hit investments and the valuation of a number of financial instruments. In the opinion of the Directors, it is difficult to assess the impact until the markets stabilise.

The longer term impact is even harder to assess and will be dependent on the outcome of negotiations with the European Union. The Directors are of the opinion that at this stage it is impossible to know what the impact will be.

This is a non-adjusting event.

## 35. Capital and reserves

Revaluation losses on investments of £0.6m (gain of £1.6m – 2015) relating to a decrease in market value of investments made in accordance with the terms of a charitable bequest. The purpose to which the bequest can be applied is restricted, and accordingly the loss has been credited to the Restricted Reserve.

Revaluation reserve has reduced by £1.5m due to disposal of fixed assets with revaluation reserve balances.

Movements in Cash Flow Hedge Reserve and Pension Reserve are further explained in note 31 and note 24.

## 36. Government grants

### Government grants included in the Statement of Total Comprehensive Income:

| | Group 2016 £'000 | Group 2015 £'000 | Trust 2016 £'000 | Trust 2015 £'000 |
|---|---|---|---|---|
| Turnover: | | | | |
| Amortised deferred government grant | 791 | 1,071 | 329 | 608 |
| Revenue grants | 507 | 454 | 507 | 408 |
| | **1,298** | **1,525** | **836** | **1,016** |

### Government grants included in the Statement of Financial Position:

| | Group 2016 £'000 | Group 2015 £'000 | Trust 2016 £'000 | Trust 2015 £'000 |
|---|---|---|---|---|
| Other fixed assets | - | (7) | - | (7) |
| Creditors due within one year: | | | | |
| Recycled Capital Grant Fund | (17,171) | (6,419) | (17,147) | (6,419) |
| Disposal Proceeds Fund | (235) | (366) | (235) | (366) |
| Creditors due after one year: | | | | |
| Recycled Capital Grant Fund | (79,207) | (87,628) | (78,411) | (87,172) |
| Disposal Proceeds Fund | (2,159) | (2,541) | (2,159) | (2,539) |
| Deferred government grant | (333,463) | (395,635) | (273,197) | (335,534) |
| Reserves: | | | | |
| Income and expenditure reserve | (995,698) | (976,398) | (995,698) | (976,398) |
| | **(1,427,933)** | **(1,468,994)** | **(1,366,847)** | **(1,408,435)** |

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